WATSCO, INC.

2665 South Bayshore Drive, Suite 901
Coconut Grove, Florida 33133, U.S.A.

PROSPECTUS

Published in Connection with the Admission of Watsco, Inc.'s Common Stock[1] to Listing and Trading on the Professional Segment of NYSE Euronext in Paris

Pursuant to Articles L. 412-1 and L. 621-8 of the *Code Monétaire et Financier* and Articles 211-1 to 216-1 of its General Regulation, the *Autorité des marchés financiers* ("AMF") granted visa number 10-335 dated September 24, 2010 on this prospectus. This prospectus has been prepared by the issuer and its signatory accepts the responsibility for its contents. In accordance with the provisions of Article L. 621-8-1-I of the *Code Monétaire et Financier*, the visa was granted after the AMF verified that the document was complete and comprehensible and that the information it contains was internally consistent. It does not imply that the AMF endorses the proposed transaction nor that it has validated the accounting and financial information presented herein.

Copies of this prospectus may be obtained free of charge from Watsco, Inc. at the address indicated above and from its paying agent, BNP Paribas Securities Services – CTS Services aux Emetteurs (Postal address: 11 rue Ella Fitzgerald, 75019 Paris, France), and on the websites of Watsco, Inc. (www.watsco.com) and the AMF (www.amf-france.org).

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1 Watsco, Inc.'s authorized capital stock consists of 60,000,000 shares of common stock, par value $.50 per share, and 10,000,000 shares of Class B common stock, par value $.50 per share. Watsco, Inc. has applied for admission to listing and trading on the Professional Segment of NYSE Euronext in Paris of 34,373,438 shares of common stock issued as of September 1, 2010. The shares of Class B common stock will not be listed on NYSE Euronext in Paris.

NOTE TO THE PROSPECTUS

This prospectus is published solely in connection with the admission of Watsco, Inc.'s Common Stock to listing and trading on the Professional Segment of NYSE Euronext in Paris ("Euronext"). This prospectus is not published in connection with and does not constitute an offer of securities by or on behalf of Watsco, Inc. ("Watsco").

Pursuant to Article 516-19 of the AMF General Regulation, an investor other than a qualified investor, within the meaning of b) of Point 4 of II of Article L. 411-2 of the Monetary and Financial Code, may not purchase Watsco's Common Stock on the Professional Segment of Euronext unless such investor takes the initiative to do so and has been duly informed by the investment services provider about the characteristics of the segment.

The distribution of this prospectus in certain jurisdictions may be restricted by law, and therefore persons into whose possession this prospectus comes should inform themselves of and observe any such restrictions.

This prospectus contains forward-looking statements concerning, among other things, the prospects for Watsco's operations, which are subject to certain risks, uncertainties and assumptions. The various assumptions Watsco uses in its forward−looking statements, as well as risks and uncertainties relating to those statements, are set out in "Information about Forward-Looking Statements" on pages 10 to 11 of Watsco's 10-K (as defined below). Factors exist that could cause Watsco's actual results to differ materially from these forward-looking statements. Such factors include:

- 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 Watsco's industry and products;
- prevailing interest rates; and
- the continued viability of our business strategy.

This prospectus, which contains material information concerning Watsco, was established pursuant to Articles 211-1 to 216-1 of the AMF General Regulation. Pursuant to Article 25 of Commission Regulation (EC) No 809/2004 of 29 April 2004 (the "Prospectus Regulation"), this prospectus is composed of the following parts in the following order:

(1) a table of contents;

(2) the summary provided for in Article 5(2) of Directive 2003/71/EC;

(3) the risk factors linked to the issuer and the type of security covered by the issue; and

(4) the cross-reference lists stipulated in Article 25.4 of the Prospectus Regulation presenting the information in the order stipulated in Annexes I and III of the Prospectus Regulation which, by application of Articles 3, 4, and 6 thereof, are required for this transaction.

This prospectus also contains in Chapter C supplemental information concerning Watsco and its business, provided at the AMF's request. For a better understanding of the summary of the prospectus in Chapter A, the reader should read the entire prospectus, including Chapter C: Supplemental Information concerning Watsco, contained on pages 20 – 32.

Further, the prospectus contains the following documents:

- Annual Report on Form 10-K for the fiscal year ended December 31, 2009, filed by Watsco with the U.S. Securities and Exchange Commission (the "SEC") on February 26, 2010 ("Watsco's 10-K");

- Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, filed by Watsco with the SEC on August 6, 2010 ("Watsco's 10-Q");

- Definitive Proxy Statement on Schedule 14A, filed by Watsco with the SEC on April 30, 2010 ("Watsco's Proxy Statement");

- Amended and Restated Certificate of Incorporation of Watsco and Articles of Amendment to the Amended and Restated Articles of Incorporation of Watsco;

- By-Laws of Watsco and Amendment to the By-Laws of Watsco dated April 1, 2009;

- Current Report on Form 8-K furnished by Watsco to the SEC on July 22, 2010; and

- Consolidated Financial Statements of Watsco as of December 31, 2008 and December 31, 2007, and for each of the three years in the period ended December 31, 2008.

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COMPANY REPRESENTATIVES FOR PROSPECTUS

1.1 Albert H. Nahmad, President and Chief Executive Officer of Watsco, Inc., Barry S. Logan, Senior Vice President and Secretary of Watsco, Inc., and Ana M. Menendez, Chief Financial Officer and Treasurer of Watsco, Inc., acting for and on behalf of Watsco, Inc.

1.2 We each hereby declare, after taking all reasonable measures for this purpose and to the best of our knowledge, that the information contained in this prospectus is in accordance with the facts and that the prospectus makes no material omission.

/s/ Albert H. Nahmad
Albert H. Nahmad
President and Chief Executive Officer of Watsco, Inc.

Coconut Grove, Florida, September 23, 2010

/s/ Barry S. Logan
Barry S. Logan
Senior Vice President and Secretary of Watsco, Inc.

Coconut Grove, Florida, September 23, 2010

/s/ Ana M. Menendez
Ana M. Menendez
Chief Financial Officer and Treasurer of Watsco, Inc.

Coconut Grove, Florida, September 23, 2010

CHAPTER A:
PROSPECTUS SUMMARY

NOTE TO THE PROSPECTUS SUMMARY

VISA NUMBER 10-335 DATED SEPTEMBER 24, 2010 OF THE AMF

Note to the reader

This summary should be read as an introduction to the prospectus. Any decision to invest in the securities should be based on consideration of the prospectus as a whole by the investor. Where a claim relating to the information contained in a prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States of the European Community or States party to the European Economic Area Agreement, have to bear the costs of translating the prospectus before the legal proceedings are initiated. Civil liability attaches to the persons who presented the summary, and any translation thereof, only if the content of the summary is misleading, inaccurate or inconsistent when read with other parts of the prospectus.

The following is a summary of some of the information contained in this prospectus. We urge you to read this entire document carefully, including the risk factors, our historical consolidated financial statements and the notes to those financial statements. Unless the context requires otherwise, references in this prospectus to the "Company," "we," "us," "our" and "Watsco" are to Watsco, Inc., a Florida corporation, and its subsidiaries collectively.

I. GENERAL DESCRIPTION OF WATSCO, INC.

1.1 Introduction

Watsco is the largest distributor of air conditioning, heating and refrigeration equipment and related parts and supplies ("HVAC/R") in the HVAC/R distribution industry in the United States, currently operating 506 locations serving over 50,000 customers in 36 states, Puerto Rico, Latin America and the Caribbean. According to the U.S. Department of Energy, heating and cooling account for about 56% of the energy use in a typical U.S. home. The products we distribute can dramatically increase the efficiency of a home's HVAC system, saving homeowners money on their energy expenses and significantly reducing the emissions of greenhouse gases.

Our network sells an expansive line of products and maintains a diverse mix of inventory to meet our customers' immediate needs and seek to provide products a contractor would generally require when installing or repairing a central air conditioner, furnace or refrigeration system on short notice. The cooling capacity of air conditioning units is measured in tons. One ton of cooling capacity is equivalent to 12,000 British Thermal Units ("BTUs") and is generally adequate to air condition approximately 500 square feet of residential space. The products we distribute consist of: (i) equipment, including residential central air conditioners ranging from 1-1/2 to 5 tons, gas, electric and oil furnaces ranging from 50,000 to 150,000 BTUs, commercial air conditioning and heating equipment and systems ranging from 1-1/2 to 25 tons, and other specialized equipment, (ii) parts, including replacement compressors, evaporator coils, motors and other component parts and (iii) supplies, including thermostats, insulation material, refrigerants, ductwork, grills, registers, sheet metal, tools, copper tubing, concrete pads, tape, adhesives and other ancillary supplies.

On July 1, 2009, Watsco completed the formation of a joint venture with Carrier Corporation ("Carrier") to distribute Carrier, Bryant and Payne products throughout the U.S. Sunbelt, Latin America and the Caribbean. The joint venture, Carrier Enterprise, LLC ("Carrier Enterprise"), added 95 locations to the Watsco network. Watsco owns 60% of Carrier Enterprise and Carrier owns 40%.

1.2 Business Strategy

We have a "buy and build" strategy that has produced substantial historical long-term growth in sales and profits. The historical long-term growth in sales and profits is not necessarily indicative of future growth in sales and profits. The "buy" component of the strategy focuses on acquiring existing market leaders either by expanding into new geographic areas or gaining additional market share in existing markets. We employ a disciplined and conservative approach that seeks opportunities that fit well-defined financial and strategic criteria. The "build" component of the strategy focuses on implementing a growth culture at acquired companies, by adding products and locations to better serve our customers, exchanging ideas and business concepts amongst the executive management teams and investing in new technologies. Newly acquired businesses have access to our capital resources and established vendor relationships to provide their customers with an expanded array of product lines on favorable terms and conditions with an intensified commitment to service.

II. INFORMATION RELATING TO ADMISSION TO LISTING AND TRADING ON EURONEXT

Issuer	Watsco, Inc., a Florida corporation, with its principal executive offices at 2665 South Bayshore Drive, Suite 901, Coconut Grove, Florida 33133, U.S.A.
Stock Exchange Listing	Our Common Stock (as defined below) is listed on the New York Stock Exchange ("NYSE") under the symbol "WSO" since 1994. In addition, our Class B Common Stock (as defined below) is listed on NYSE Amex. We have applied for admission to listing and trading on the Professional Segment of Euronext of 34,373,438 shares of Common Stock issued as of September 1, 2010. On September 23, 2010, Euronext approved our application for listing and trading of our Common Stock on Euronext. Our Common Stock will be listed under the symbol "WSO." **The Class B Common Stock will not be listed on Euronext.** The Euronext listing is intended to promote additional liquidity for all investors and provide greater access to Watsco's Common Stock among European fund managers who may be required to invest in Euro-zone markets or currencies only.
Transfer Agent	American Stock Transfer & Trust Company.
Paying Agent	BNP Paribas Securities Services – CTS Services aux Emetteurs (Postal address: 11 rue Ella Fitzgerald, 75019 Paris, France) is acting as Watsco's paying agent (the "Paying Agent").
Securities Identification Code	The CUSIP number assigned to the Common Stock is 942622200. The ISIN is US9426222009.
Authorized Capital	Our authorized capital stock consists of 60,000,000 shares of common stock, par value $.50 per share (the "Common Stock"), 10,000,000 shares of Class B common stock, par value $.50 per share (the "Class B Common

Stock") and 10,000,000 shares of preferred stock, par value $0.50 per share (the "Preferred Stock").

As of September 1, 2010, 28,050,788 shares of Common Stock and 4,326,326 shares of Class B Common Stock were issued and outstanding, respectively, and 6,322,650 shares of Common Stock and 48,263 shares of Class B Common Stock were held in treasury, respectively. See "Common Stock and Class B Common Stock" on page 21 of this prospectus for differences between them. No shares of Preferred Stock are currently issued and outstanding. As of the date of this prospectus, Watsco does not intend to issue any Preferred Stock.

Authorized but Unissued Capital Stock	Florida law does not require shareholder approval for any issuance of authorized shares. See "Voting Rights" on pages 21 – 22 of this prospectus. However, the NYSE and NYSE Amex rules require shareholder approval of certain issuances of Common Stock and Class B Common Stock or securities convertible into or exchangeable for Common Stock equal to or exceeding 20% of the then outstanding number of our Common Stock or Class B Common Stock. The NYSE and NYSE Amex rules do not set out any specific time limit in which the 20% threshold is determined.

Accordingly, subject to the above limitations, Watsco's Board of Directors (the "Board") may issue up to a maximum of 31,949,212 shares of Common Stock (including 6,322,650 shares of Common Stock currently held in treasury) and 5,673,674 shares of Class B Common Stock at a price equal to or higher than the par value of $.50 per share without authorization from the shareholders. No other price restrictions apply. Any issue of Common Stock would give rise to a registration requirement under the SEC rules, absent any available exemption, such as an issue of Common Stock solely to qualified institutional buyers.

The Company has equity compensation plans under which Common Stock and Class B Common Stock may be provided to directors or employees of the Company. The Company's obligations in this respect may be satisfied either by Common Stock or Class B Common Stock held in treasury or by newly issued Common Stock or Class B Common Stock. As of September 1, 2010, there were 1,107,585 shares of Common Stock and Class B Common Stock available for issuance under Watsco's equity compensation plans by virtue of awards that may be granted in the future under such plans and 491,150 Common Stock options and 57,000 Class B Common Stock options previously granted and not yet exercised (out of the 5,000,000 shares of Common Stock and Class B Common Stock initially available).

Under the terms of the plans, the Common Stock and Class B Common Stock are considered as a single pool, and the Company may in its sole discretion grant awards in Common Stock and/or Class B Common Stock to directors or employees. Previously granted awards of non-vested (restricted) stock are included in the shares of Common Stock and Class B Common Stock outstanding as of September 1, 2010.

For further information regarding these equity compensation plan awards, see Note 6. Share-Based Compensation and Benefit Plans in the 2009 Annual Report to Shareholders attached as Exhibit 13 to Watsco's Form

	10-K (the "Shareholders' Report").
Dividend Policy	Cash dividends per share of $1.89, $1.75 and $1.31 for Common Stock and Class B Common Stock were paid in 2009, 2008 and 2007, respectively. Our Board declared cash dividends on Common Stock and Class B Common Stock of $.52 per share, $.48 per share, $1.00 per share and $.93 per share for the quarters and six months ended June 30, 2010 and 2009, respectively. In July 2010, the Board declared a regular quarterly cash dividend of $.52 per share of Common Stock and Class B Common Stock that was paid on July 30, 2010 to shareholders of record as of July 15, 2010. Future dividends and/or dividend rate increases will be at the sole discretion of the Board and will depend upon such factors as profitability, financial condition, cash requirements, and restrictions under our revolving credit agreement, future prospects and other factors deemed relevant by our Board. See "Dividend Rights" on page 21 of this prospectus.
First Paris Trading Date	Trading in the Common Stock on the Professional Segment of Euronext is expected to start on October 21, 2010. Watsco will be continuously traded on Euronext.
Use of Proceeds	We will not receive any proceeds from the admission to listing and trading of our Common Stock on Euronext.
Currency of Trading	Trading of our Common Stock on Euronext will be in Euros.
Settlement	Settlement of any transactions on Euronext is expected to occur through the book-entry facilities of Euroclear France.
Liquidity	At this time, Watsco does not intend to enter into any agreement with a liquidity provider in connection with the listing of its Common Stock on Euronext. However, Watsco reserves the right to enter into such agreement in the future, subject to compliance with applicable legislation in France and the U.S.A. Until such time that an agreement is entered into with a liquidity provider (if ever), liquidity in the Common Stock will result initially from execution on Euronext of sell orders in respect of Common Stock currently traded on the NYSE and future trading in the Common Stock on Euronext with settlement through Euroclear France.

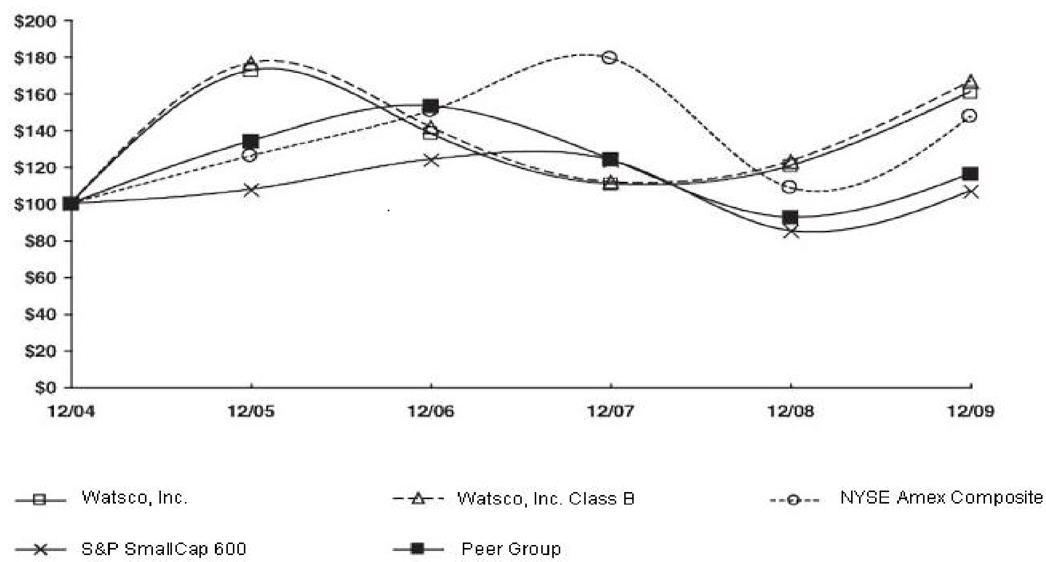
Market Capitalization for the US and French Markets	Based on 28,050,788 shares of Common Stock and 4,326,326 shares of Class B Common Stock issued and outstanding as of September 1, 2010 (excluding the 6,322,650 shares of Common Stock and the 48,263 shares of Class B Common Stock held in treasury, respectively), and the closing price of the Common Stock on the NYSE and the closing price of the Class B Common Stock on NYSE Amex on September 22, 2010 of $57.44 and $56.84, respectively, Watsco had a market capitalization on the NYSE of approximately $1.86 billion, which, based on the exchange rate on September 22, 2010 ($1 = EUR 0.7641), corresponds to approximately EUR 1.42 billion. The market capitalization on Euronext is calculated on the total issued Common Stock, including the treasury shares, but excluding the Class B Common Stock. Based on the above figures, the market capitalization on September 22, 2010 was approximately $1.97 billion / EUR 1.51 billion.

Please find below information concerning the Common Stock price performance and shareholder return performance.

Performance Graph

The following graph compares the cumulative five-year total return attained by shareholders on our Common Stock and Class B Common Stock relative to the cumulative total returns of the NYSE Amex Composite index, the S&P SmallCap 600 index and a customized peer group of companies, which are: Beacon Roofing Supply, Inc., Interline Brands, Inc., Lennox International Inc., Pool Corp and WESCO International, Inc. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common stock, in each index and in the peer group on December 31, 2004 and its relative performance is tracked through December 31, 2009.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Watsco, Inc., the NYSE Amex Composite Index, the S&P SmallCap 600 Index and a Peer Group



	12/04	12/05	12/06	12/07	12/08	12/09
Watsco, Inc.	100.00	172.32	138.18	110.64	120.54	160.67
Watsco, Inc. Class B	100.00	176.40	141.68	111.85	123.05	166.44
NYSE Amex Composite	100.00	125.80	150.40	178.95	108.56	147.27
S&P SmallCap 600	100.00	107.68	123.96	123.59	85.19	106.97
Peer Group	100.00	133.92	153.07	124.15	92.53	116.17

* *The stock price performance included in this graph is not necessarily indicative of future stock price performance.*

III. MAJOR SHAREHOLDERS

The following table shows information for each person known by Watsco to beneficially own 5% or more of the outstanding Common Stock and Class B Common Stock as of April 9, 2010, unless indicated otherwise.

Name and Address of Beneficial Owners[1]	Common Stock Beneficially Owned[2]		Class B Common Stock Beneficially Owned[2]		Combined Percent of Voting Securities[2]
	Shares	Percent	Shares	Percent	
Shareholders owning more than 5% of any class of Common Stock:					
BlackRock, Inc.[3]	3,568,084	12.7%	—	—	5.0%
Carrier Corporation[4]	2,985,685	10.6%	94,784	2.2%	5.5%
Merchants' Gate Capital LP and related entities** 712 Fifth Avenue New York, NY 10019, USA	1,422,600	5.1%	—	—	2.0%
Capital World Investors[5]	1,496,135	5.3%	—	—	2.1%
Earnest Partners, LLC[6]	1,398,427	5.0%	—	—	2.0%
Alna Capital Associates, LP[7]	—	—	766,886	17.7%	10.7%
Directors and Named Executive Officers:					
Albert H. Nahmad[8]	1,118	*	3,829,975	88.4%	53.6%

* , (1)-(8) See pages 15 – 16 of Watsco's Proxy Statement.

** Solely based on information provided in a Schedule 13G dated July 30, 2010, filed with the SEC by Merchants' Gate Capital LP and related entities. Percentages are calculated based on shares outstanding as of April 9, 2010.

For further information regarding the calculation methods related to the Common Stock and Class B Common Stock beneficially owned, please refer to footnote 2 on page 15 of Watsco's Proxy Statement.

For further information regarding the shareholders' agreement entered into between Watsco and Carrier, please refer to pages 22 – 23 of Chapter C of this prospectus.

IV. RISK FACTORS

Set forth below and in Chapter B – Risk Factors in this prospectus are summaries of certain of the risks, uncertainties and other factors that may affect our future results. The full description of these and other risk factors is included on pages 8 – 10 of Watsco's 10-K and the "Information about Forward-Looking Statements" on pages 10 – 11 of Watsco's 10-K, attached as Exhibit I to this prospectus. The risk factors summarized below should be read in conjunction with the other risk factors and forward-looking statements in Watsco's 10-K.

- Joint Venture with Carrier. On July 1, 2009, we completed the formation of Carrier Enterprise to distribute Carrier, Bryant and Payne products throughout the U.S. Sunbelt, Latin America and the Caribbean. The formation of Carrier Enterprise involves a number of risks. Watsco purchased a 60% controlling interest in Carrier Enterprise for fixed consideration of $172.0 million and a fair value of $181.5 million with options to purchase up to an additional 20% interest from Carrier (10% beginning in July 2012 and an additional 10% in July 2014.) We issued 2,985,685 shares of our Common Stock and 94,784 shares of our Class B Common Stock on July 1, 2009, having a fair value of $151.1 million to Carrier, contributed 15 locations that sold Carrier-manufactured products having a fair value of $23.2 million and paid Carrier $7.2 million in cash. Carrier does not hold any options that would require Watsco to purchase additional interests in Carrier Enterprise.

- Continuing Decline in Economic Conditions. The decline in economic conditions and lack of availability of business and consumer credit could have an adverse effect on our business.

- Supplier Concentration. Given the significant concentration of our supply chain, particularly with Carrier, any significant interruption by the manufacturers or a termination of a distribution agreement could temporarily disrupt the operations of certain subsidiaries. Future results of operations are also materially dependent upon the continued market acceptance of these manufacturers' products and their ability to continue to manufacture products that comply with laws relating to environmental and efficiency standards.

- Risks Inherent in Acquisitions. As part of our strategy, we intend to pursue additional acquisitions of complementary businesses. Growth through acquisitions involves a number of risks.

- Competition. We operate in highly competitive environments.

- Control by Existing Shareholder. As of December 31, 2009, Albert H. Nahmad, our Chairman and Chief Executive Officer, and a limited partnership controlled by him, collectively had beneficial ownership of approximately 54% of the combined voting power of the outstanding Common Stock and Class B Common Stock.

V. RECENT DEVELOPMENTS

On July 22, 2010, Watsco reported record results for the second quarter and for the six months ended June 30, 2010. The results include Carrier Enterprise.

Earnings per share increased 93% to a record $1.08 per diluted share on record net income of $35 million, compared to $0.56 per diluted share on net income of $16 million in 2009. Revenues increased 114% to a record $865 million, including $400 million of sales added by Carrier Enterprise. Same-store sales increased 14%, reflecting 25% growth in air conditioning and heating (HVAC) equipment (53% of sales), a 3% increase in other HVAC products (34% of sales) and a 5% increase in refrigeration products (13% of sales). Sales of HVAC equipment reflect a combination of strong growth in unit sales and an improving sales mix of higher-efficiency replacement air conditioning and heating systems. For further information, please see Exhibit VI.

VI. FINANCIAL INFORMATION CONCERNING WATSCO INC. FOR THE FISCAL YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007 AND THE QUARTERS ENDED JUNE 30, 2010 AND 2009

The consolidated financial statements of Watsco set out in this prospectus have been prepared in accordance with U.S. GAAP, as authorized by the decision of the European Commission of December 12, 2008.

The following selected financial data of Watsco have been derived from the historical consolidated financial statements referred to below and should be read in conjunction with such consolidated financial statements and the notes included therein.

For the audited consolidated balance sheets of Watsco as of December 31, 2009 and 2008, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2009 and the reports of the Independent Registered Public Accounting Firms with respect to such consolidated financial statements, the reader's attention is called to Watsco's consolidated financial statements contained in the Shareholders' Report.

For the audited consolidated balance sheets of Watsco as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2008 and the report of the Independent Registered Public Accounting Firm with respect to such consolidated financial statements, the reader's attention is called to Watsco's consolidated financial statements attached as Exhibit VII to this prospectus.

The following selected condensed consolidated statements of income data for the quarters ended June 30, 2010, and June 30, 2009, and condensed consolidated balance sheet data at June 30, 2010, are derived from Watsco's condensed consolidated unaudited financial statements contained on pages 3 – 12 of Watsco's 10-Q.

SELECTED THREE YEAR FINANCIAL DATA
(In thousands, except per share data)

Statements of Income

	Years ended December 31, 2009	2008	2007
Revenues	$ 2,001,815	$ 1,700,237	$ 1,758,022
Operating income	81,060	98,608	111,154
Income from continuing operations before income taxes	78,329	96,590	107,982
Loss from discontinued operations, net of tax	-	-	(1,192)
Net income	51,573	60,369	65,577
Basic earnings per share for Common Stock and Class B Common Stock			
Net income from continuing operations attributable to Watsco, Inc. shareholders	1.40	2.14	2.41
Net loss from discontinued operations attributable to Watsco, Inc. shareholders	-	-	(0.07)
Net income attributable to Watsco, Inc. shareholders	1.40	2.14	2.34
Diluted earnings per share for Common Stock and Class B Common Stock			
Net income from continuing operations attributable to Watsco, Inc. shareholders	1.40	2.09	2.34
Net loss from discontinued operations attributable to Watsco, Inc. shareholders	-	-	(0.07)
Net income attributable to Watsco, Inc. shareholders	1.40	2.09	2.27

The unaudited pro forma financial information combining Watsco's results of operations with the operations of Carrier Enterprise as if the joint venture had been consummated on January 1, 2008 is as follows:

	Years ended December 31, 2009	2008
Revenues	$ 2,562,319	$ 2,933,662
Net income	59,874	76,894

	Years ended December 31, 2009	Years ended December 31, 2008
Less: net income attributable to the noncontrolling interest	13,332	8,775
Net income attributable to Watsco, Inc.	46,542	68,119
Diluted earnings per share for Common Stock and Class B Common Stock	$ 1.53	$ 2.13

Balance Sheets

	Years ended December 31,		
	2009	2008	2007
Cash and cash equivalents	$ 58,093	$ 41,444	$ 9,405
Total assets	1,160,613	716,061	750,113
Total current liabilities	223,926	107,824	129,364
Total long-term obligations	13,429	20,783	55,042
Total Watsco, Inc. shareholders' equity	738,026	570,660	549,957
Non controlling interest	156,782	-	-
Total shareholders' equity	894,808	570,660	549,957
Cash dividend declared and paid per share			
Common Stock	1.89	1.75	1.31
Class B Common Stock	1.89	1.75	1.31

Statements of Cash Flows

	Years ended December 31,		
	2009	2008	2007
Net cash provided by operating activities	$ 88,287	$ 113,473	$ 107,998
Net cash used in investing activities	(15,503)	(3,671)	(108,000)
Net cash used in financing activities	(56,135)	(77,763)	(24,933)
Net increase (decrease) in cash and cash equivalents	16,649	32,039	(24,935)
Cash and cash equivalents at end of year	58,093	41,444	9,405

SELECTED QUARTERLY FINANCIAL DATA
(In thousands, except per share data – Unaudited)

Statements of Income

	Quarter Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues	$ 864,805	$ 404,971	$ 1,374,560	$ 696,314
Operating income	70,919	26,294	79,784	24,732
Income before income taxes	70,025	25,950	77,993	24,060
Net income	48,207	16,282	53,682	15,110
Net income attributable to Watsco, Inc.	35,045	16,282	38,878	15,110
Earnings per share for Common Stock and Class B Common Stock				
Basic	1.08	0.57	1.20	0.53
Diluted	1.08	0.56	1.20	0.52

The unaudited pro forma financial information combining Watsco's results of operations with the operations of Carrier Enterprise as if the joint venture had been consummated on January 1, 2009 is as follows:

	Quarter Ended June 30, 2009	Six Months Ended June 30, 2009
Revenues	$ 740,189	$ 1,256,818
Net income	27,947	23,349
Less: net income attributable to the noncontrolling interest	6,600	5,084
Net income attributable to Watsco, Inc.	$ 21,347	$ 18,265
Diluted earnings per share for Common Stock and Class B Common Stock	$ 0.67	$ 0.55

Balance Sheets

	June 30, 2010	December 31, 2009*
Cash and cash equivalents	$ 87,757	$ 58,093
Total assets	1,417,568	1,160,613
Total current liabilities	448,425	223,926
Total long-term obligations	20,574	13,429
Total Watsco, Inc. shareholders' equity	751,361	738,026
Non controlling interest	168,471	156,782
Total shareholders' equity	919,832	894,808
Cash dividend declared and paid per share		
Common Stock	1.00**	1.89**
Class B Common Stock	1.00**	1.89**

* Derived from audited consolidated balance sheet.

** Dividends are for the six months ended June 30, 2010 and for the full fiscal year 2009.

Statements of Cash Flows

	Six Months Ended June 30	
	2010	2009
Net cash provided by operating activities	$ 56,830	$ 27,559
Net cash used in investing activities	(4,172)	(1,430)
Net cash used in financing activities	(22,994)	(22,270)
Net increase in cash and cash equivalents	29,664	3,859
Cash and cash equivalents at end of period	87,757	45,303

VII. DOCUMENTS ON DISPLAY

As a public company, we regularly file reports and proxy statements with the SEC. These reports are required by the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and include, but are not limited to:

- annual reports on Form 10-K;
- quarterly reports on Form 10-Q;
- current reports on Form 8-K;
- proxy statements on Schedule 14A; and

- any amendments to those reports.

As of the date of this prospectus, no material changes to the information contained in Exhibits I to III to this prospectus have occurred except as otherwise included in this prospectus.

On September 17, 2009, we filed with the SEC a Form 8-K/A reporting the completion of the joint venture with Carrier effective July 1, 2009 and containing the financial statements and pro forma financial information required by the SEC's regulations.

The SEC maintains an Internet site at www.sec.gov that contains the reports, proxy and information statements, and other information that we file electronically.

We make available free of charge access to our SEC filings as soon as reasonably practicable after such materials are electronically filed with or furnished to the SEC through our website at www.watsco.com. Other reports filed with the SEC under the Exchange Act, are also available including the proxy statements and reports filed by officers and directors under Section 16(a) of that Act. These reports may be found on our website by selecting the option entitled "SEC Filings" under the "Investor Relations" section of the website. The reference to our website address does not constitute incorporation by reference of the information contained on our website and should not be considered part of this prospectus.

Copies of the above referenced information will also be made available, free of charge, by calling + 1 305 714 4100 or upon written request to:

Watsco, Inc.
Investor Relations
2665 South Bayshore Drive, Suite 901
Coconut Grove, FL 33133, U.S.A.

CHAPTER B:
RISK FACTORS

I. BUSINESS RISK FACTORS

Set forth below are summaries of certain of the risks, uncertainties and other factors that may affect our future results. The full description of these and other risk factors is included on pages 8 – 10 of Watsco's 10-K attached as Exhibit I to this prospectus. The risk factors summarized below should be read in conjunction with the other risk factors in Watsco's 10-K.

1.1 Business Risk Factors

Joint Venture with Carrier

On July 1, 2009, we completed the formation of Carrier Enterprise to distribute Carrier, Bryant and Payne products throughout the U.S. Sunbelt, Latin America and the Caribbean. The formation of Carrier Enterprise involves a number of risks. Watsco purchased a 60% controlling interest in Carrier Enterprise for fixed consideration of $172.0 million and a fair value of $181.5 million with options to purchase up to an additional 20% interest from Carrier (10% beginning in July 2012 and an additional 10% in July 2014.) We issued 2,985,685 shares of our Common Stock and 94,784 shares of our Class B Common Stock on July 1, 2009, having a fair value of $151.1 million to Carrier, contributed 15 locations that sold Carrier-manufactured products having a fair value of $23.2 million and paid Carrier $7.2 million in cash. Carrier does not hold any options that would require Watsco to purchase additional interests in Carrier Enterprise.

Continuing Decline in Economic Conditions

The decline in economic conditions and lack of availability of business and consumer credit could have an adverse effect on our business.

Supplier Concentration

Given the significant concentration of our supply chain, particularly with Carrier, any significant interruption by the manufacturers or a termination of a distribution agreement could temporarily disrupt the operations of certain subsidiaries. Future results of operations are also materially dependent upon the continued market acceptance of these manufacturers' products and their ability to continue to manufacture products that comply with laws relating to environmental and efficiency standards.

Risks Inherent in Acquisitions

As part of our strategy, we intend to pursue additional acquisitions of complementary businesses. Growth through acquisitions involves a number of risks.

Competition

We operate in highly competitive environments.

Seasonality

Sales of residential central air conditioners, heating equipment and parts and supplies have historically been seasonal.

Dependence on Key Personnel

We are highly dependent on the skills, experience and services of key personnel. The loss of key personnel could have a material adverse effect on our business, operating results or financial condition.

1.2 General Risk Factors

Goodwill and Intangibles

At December 31, 2009, goodwill and intangibles represented approximately 31% of total assets. Future cash flows can be affected by changes in the industry, a declining economic environment or market conditions.

Risks Related to Insurance Coverage

We carry general liability, comprehensive property damage, workers' compensation, health benefits and other insurance coverage that management considers adequate for the protection of its assets and operations. There can be no assurance, however, that the coverage limits of such policies will be adequate to cover losses and expenses for lawsuits brought or which may be brought against us.

Control by Existing Shareholder

As of December 31, 2009, Albert H. Nahmad, our Chairman and Chief Executive Officer, and a limited partnership controlled by him, collectively had beneficial ownership of approximately 54% of the combined voting power of the outstanding Common Stock and Class B Common Stock.

II. MARKET RISK FACTORS

The primary market risk exposure for Watsco is interest rate risk. The objective in managing the exposure to interest rate changes is to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve this objective, interest rate swaps are used to manage net exposure to interest rate changes to our borrowings. These swaps are entered into with financial institutions with investment grade credit ratings, thereby minimizing the risk of credit losses. All items described are non-trading. See Notes 1 and 10 to the consolidated financial statements in the Shareholders' Report for further information.

Interest rate swap agreements reduce the exposure to market risks from changing interest rates under our revolving credit agreements. Under the swap agreements, we agree to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to a notional principal amount. Any differences paid or received on interest rate swap agreements are recognized as adjustments to interest expense over the life of each swap, thereby adjusting the effective interest rate on the underlying obligation. Financial instruments are not held for trading purposes. Derivatives used for hedging purposes must be designated as, and effective as, a hedge of the identified risk exposure at the inception of the contract. Accordingly, changes in the fair value of the derivative contract must be highly correlated with changes in the fair value of the underlying hedged item at inception of the hedge and over the life of the hedge contract.

At December 31, 2009, one interest rate swap agreement was in effect with a notional amount of $10.0 million, to manage the net exposure to interest rate changes related to $10.0 million of borrowings under our revolving credit agreement. The swap agreement matures in October 2011 and exchanges the variable rate of 30-day LIBOR to a fixed interest rate of 5.07%. The interest rate swap was effective as a cash flow hedge and no charge to earnings was required in 2009, 2008 and 2007.

We were party to an interest rate swap agreement with a notional amount of $10.0 million, which matured on October 31, 2009, that was designated as a cash flow hedge and effectively exchanged the variable rate of 30-day LIBOR to a fixed interest rate of 5.04%. During 2009, 2008 and 2007, the hedging relationship was determined to be highly effective in achieving offsetting changes in cash flows.

We were party to an interest rate swap agreement with a notional amount of $30.0 million, which matured on October 9, 2007, that was designated as a cash flow hedge and effectively exchanged the variable rate of 90-day LIBOR to a fixed interest rate of 6.25%. During 2007, the hedging relationship was determined to be highly effective in achieving offsetting changes in cash flows.

The negative fair value of the derivative financial instruments was $0.7 million, $1.3 million and $0.6 million at December 31, 2009, 2008 and 2007, respectively, and is included in the consolidated balance sheets.

At December 31, 2009, 2008 and 2007, our exposure to interest rate changes was limited to variable rate lease payments which are indexed to one month LIBOR. To assess our exposure to changes in interest rates, we performed a sensitivity analysis to determine the impact to earnings associated with an immediate 100 basis-point fluctuation from one month LIBOR. Based on the results of this simulation, as of December 31, 2009, 2008 and 2007, net income would decrease or increase by approximately $.1 million on an annual basis if there were an immediate 100 basis-point increase or decrease, respectively, in one month LIBOR. Disruptions in the capital and credit markets have also affected the determination of interest rates for LIBOR-based borrowers. Disruptions in these markets and their affect on interest rates could result in increased borrowings than our sensitivity analysis determined. This information constitutes a “forward-looking statement” and actual results may differ significantly based on actual borrowings and interest rates.

CHAPTER C:
SUPPLEMENTAL INFORMATION CONCERNING WATSCO, INC.

I. RIGHTS RELATED TO THE REGISTERED SHARES

1.1 Type and the Class of the Securities Being Offered, Including the Security Identification Code

Our authorized capital stock consists of 60,000,000 shares of common stock, par value $.50 per share (the "Common Stock"), 10,000,000 shares of Class B common stock, par value $.50 per share (the “Class B Common Stock”) and 10,000,000 shares of preferred stock, par value $0.50 per share (the “Preferred Stock”).

As of September 1, 2010, 28,050,788 shares of Common Stock and 4,326,326 shares of Class B Common Stock were issued and outstanding, respectively, and 6,322,650 shares of Common Stock and 48,263 shares of Class B Common Stock were held in treasury, respectively. No shares of Preferred Stock are currently issued and outstanding. As of the date of this prospectus, Watsco does not intend to issue any Preferred Stock.

The Common Stock is listed on the NYSE under the symbol “WSO” since 1994. The CUSIP number assigned to the Common Stock is 942622200. The ISIN is US9426222009.

The Company has equity compensation plans under which Common Stock and Class B Common Stock may be provided to directors or employees of the Company. The Company’s obligations in this respect may be satisfied either by Common Stock or Class B Common Stock held in treasury or by newly issued Common Stock or Class B Common Stock. As of September 1, 2010, there were 1,107,585 shares of Common Stock and Class B Common Stock available for issuance under Watsco’s equity compensation plans by virtue of awards that may be granted in the future under such plans and 491,150 Common Stock options and 57,000 Class B Common Stock options previously granted and not yet exercised (out of the 5,000,000 shares of Common Stock and Class B Common Stock initially available).

Under the terms of the plans, the Common Stock and Class B Common Stock are considered as a single pool, and the Company may in its sole discretion grant awards in Common Stock and/or Class B Common Stock to directors or employees. Previously granted awards of non-vested (restricted) stock are included in the shares of Common Stock and Class B Common Stock outstanding as of September 1, 2010.

1.2 Legislation Under Which the Securities Have Been Created

Our Common Stock was created under the Florida Business Corporation Act (“FBCA”).

1.3 Form of Securities, Name and Address of the Entity in Charge of Keeping the Records

In general, shareholders may hold Common Stock either in certificated or street name form. The transfer agent and registrar for the Common Stock is American Stock Transfer & Trust Company (“ASTTC”).

ASTTC can be contacted through the web at http://www.amstock.com, by telephone at 800-937-5449, by email at info@amstock.com, or by mail at: 59 Maiden Lane, Plaza Level, New York, New York 10038, U.S.A. ASTTC’s international direct dial number is +1 718-921-8124.

Watsco's paying agent is BNP Paribas Securities Services – CTS Services aux Emetteurs (Postal address: 11 rue Ella Fitzgerald, 75019 Paris, France).

1.4. Currency of the Securities Issue

Trading of our Common Stock on Euronext will be in Euros.

1.5 Rights Attached to the Securities

Common Stock and Class B Common Stock. Common Stock and Class B Common Stock share equally in earnings and are identical in most other respects except (i) Common Stock is entitled to one vote on most matters and each share of Class B Common Stock is entitled to ten votes; (ii) shareholders of Common Stock are entitled to elect 25% of the Board (rounded up to the nearest whole number) and Class B shareholders are entitled to elect the balance of the Board; (iii) cash dividends may be paid on Common Stock without paying a cash dividend on Class B Common Stock and no cash dividend may be paid on Class B Common Stock unless at least an equal cash dividend is paid on Common Stock and (iv) Class B Common Stock is convertible at any time into Common Stock on a one-for-one basis at the option of the shareholder.

Dividend Rights. Subject to the conditions set forth in Article III.B.(1) of the Amended and Restated Articles of Incorporation of Watsco ("Watsco's Amended and Restated Articles of Incorporation"), whenever a dividend is paid to the shareholders of Class B Common Stock, Watsco shall also pay to the holders of Common Stock a dividend per share at least equal to the dividend per share paid to the holders of the Class B Common Stock. Watsco may pay dividends to the holders of Common Stock in excess of dividends paid (or without paying dividends) to holders of Class B Common Stock.

Cash dividends per share of $1.89, $1.75 and $1.31 for Common Stock and Class B Common Stock were paid in 2009, 2008 and 2007, respectively. Our Board declared cash dividends on Common Stock and Class B Common Stock of $.52 per share, $.48 per share, $1.00 per share and $.93 per share for the quarters and six months ended June 30, 2010 and 2009, respectively. In July 2010, the Board declared a regular quarterly cash dividend of $.52 per share of Common Stock and Class B Common Stock that was paid on July 30, 2010 to shareholders of record as of July 15, 2010. Future dividends and/or dividend rate increases will be at the sole discretion of the Board and will depend upon such factors as profitability, financial condition, cash requirements, and restrictions under our revolving credit agreement, future prospects and other factors deemed relevant by our Board.

Voting Rights. Voting power shall be divided between the Common Stock and Class B Common Stock as follows:

- With respect to the election of directors, holders of Common Stock, voting as a separate class, shall be entitled to elect that number of directors which constitute 25% of the authorized members of the Board and, if such 25% is not a whole number, the holders of such Common Stock shall be entitled to elect the nearest higher whole number of directors that is at least 25% of such membership. Holders of Class B Common Stock, voting as a separate class, shall be entitled to elect the remaining directors.

- The holders of Common Stock shall be entitled to vote as a separate class on the removal, with or without cause, of any director elected by the holders of Common Stock and the holders of Class B Common Stock shall be entitled to vote as a separate class on the removal, with or without cause, of any director elected by the holders of Class B Common Stock.

- The holders of the Common Stock and the holders of the Class B Common Stock shall be entitled to vote as separate classes on such other matters as may be required by law or Watsco's Amended and Restated Articles of Incorporation to be submitted to such holders voting as separate classes.

- Any vacancy in the office of a director elected by the holders of the Common Stock may be filled by a vote of such holders voting as a separate class and any vacancy in the office of a director elected by the holders of the Class B Common Stock may be filled by a vote of such holders acting as a separate class or, in the absence of a shareholder vote, in the case of a vacancy of a director elected by either class, such vacancy may be filled by the remaining directors as provided in the By-Laws. Any director elected by the Board of Directors to fill a vacancy shall serve until the next election of directors by shareholders and his or her successor has been elected and qualified.

- The holders of Common Stock and Class B Common Stock shall in all matters not specified in the above sections vote together as a single class; provided that the holders of Common Stock shall have one (1) vote per share and the holders of Class B Common Stock shall have ten (10) votes per share.

The holders of Common Stock shall have exclusive voting power on all matters at any time when no Class B Common Stock is issued and outstanding.

Board of Directors; Removal; Vacancies. Florida law provides that the board of directors of a Florida corporation shall consist of one or more individuals specified in or fixed in accordance with the bylaws of the corporation or, if not specified in or fixed in accordance with the bylaws, then a number specified in or fixed in accordance with the articles of incorporation of the corporation.

Watsco’s Amended and Restated Articles of Incorporation provide that the number of members of its Board of Directors (the “Board”) shall be not less than three directors and not more than nine to be divided, as nearly as possible, into three equal classes, Class A, Class B, and Class C to serve in staggered terms of office of three years apiece.

If set forth in the bylaws, under Florida law a board of directors may amend the bylaws from time to time to increase or decrease the number of directors. Under the By-Laws of Watsco, as amended on April 1, 2009 (“Watsco’s By-Laws”), any amendment to the bylaws which increases or decreases the number of directors shall be adopted by the shareholders.

Under Florida law, a member of the board may be removed with or without cause, unless the articles of incorporation provide that directors may only be removed for cause, by a majority of the votes entitled to be cast at a meeting of shareholders called expressly for that purpose at which a quorum is present. If a director is elected by a voting group of shareholders, only the shareholders of that voting group may participate in the vote to remove the director.

Watsco’s Amended and Restated Articles of Incorporation provide that any vacancy occurring on its Board may be filled by the majority of the directors remaining in office for the unexpired term of office created by the vacancy; provided, however, that vacancies created by an increase in the number of directors by the Board between annual shareholders meetings shall be filled by a majority of the directors remaining in office until the next annual meeting of shareholders.

Meetings of the Shareholders. Under the Watsco’s By-Laws, annual and special meetings of shareholders shall be held at such place, within or without the State of Florida, as the directors may, from time to time, fix. Whenever, the directors fail to fix such place, the meeting shall be held at the principal office of Watsco in the State of Florida. The annual meeting shall be held on the date and at the time fixed, from time to time, by the directors, provided, that there shall be an annual meeting every calendar year. Special meetings of shareholders shall be held on the date and at the time fixed by the Board. Annual and special meetings may be called by the directors, by any officer instructed by the directors to call the meeting, or by written request of the shareholders holding a majority of the outstanding stock of Watsco.

Shareholder Agreement with Carrier. On July 1, 2009, in connection with the completion of the formation of a joint venture with Carrier, Watsco and Carrier entered into a Shareholder Agreement. The

Shareholder Agreement provides, *inter alia,* that for as long as Carrier's ownership of the Common Stock and Class B Common Stock ("Capital Stock") exceeds five percent (5%), at any meeting of the Company's shareholders (or any adjournment or postponement thereof), however called, or in connection with any action by written consent or other action of the Company's shareholders, Carrier shall vote (or cause to be voted) all of the shares of Capital Stock beneficially owned by it and by United Technologies Corporation, a Delaware corporation, and each of its subsidiaries, including Carrier ("Shareholder Group Members") in the same proportion of votes cast for, against or abstain by all other holders of Capital Stock, except that at any meeting of the Company's shareholders (or any adjournment or postponement thereof), however called, or in connection with any action by written consent or other action of the Company's shareholders, pursuant to which holders of any class of Capital Stock are entitled to vote as a separate class, Carrier shall vote (or cause to be voted) all of the shares of such class of Capital Stock beneficially owned by it and by Shareholder Group Members in the same proportion of votes cast for, against or abstain by all other holders of such class of Capital Stock.

Shareholder Nominations and Proposals. Pursuant to Section 607.1001 of the FBCA, a corporation may amend its articles of incorporation, from time to time, in any and as many respects as may be desired, so long as its articles of incorporation as amended would contain only such provisions as it would be lawful and proper to insert in the original articles of incorporation filed at the time of the filing of the amendment; and, if a change in stock or the rights of shareholders, or an exchange, reclassification, subdivision, combination or cancellation of stock or rights of shareholders is to be made, such provisions as may be necessary to effect such change, exchange, reclassification, subdivision, combination or cancellation. In particular, and without limitation upon such general power of amendment (but provided that an existing contractual right is not violated), a corporation may amend its articles of incorporation, from time to time, so as:

(1) To change its corporate name; or

(2) To change, substitute, enlarge or diminish the nature of its business or its corporate powers and purposes; or

(3) To increase or decrease its authorized capital stock or to reclassify the same, by changing the number, par value, designations, preferences, or relative, participating, optional, or other special rights of the shares, or the qualifications, limitations or restrictions of such rights (other than restrictions on transfer of existing shares), or by changing shares with par value into shares without par value, or shares without par value into shares with par value either with or without increasing or decreasing the number of shares, or by subdividing or combining the outstanding shares of any class or series of a class of shares into a greater or lesser number of outstanding shares; or

(4) To cancel or otherwise affect the right of the holders of the shares of any class to receive dividends which have accrued but have not been declared; or

(5) To create new classes of stock having rights and preferences either prior and superior or subordinate and inferior to the stock of any class then authorized, whether issued or unissued; or

(6) To change the period of its duration.

Any or all such changes or alterations may be effected by filing articles of amendment with the Florida Department of State.

Pursuant to Article VIII of Watsco's By-Laws, the power to amend, alter, and repeal Watsco's By-Laws, and to adopt new By-Laws, shall be vested in the Board, provided, that any By-Laws, other than the initial By-Laws, which alters the minimum and maximum number of directors and the election of directors by classes for staggered terms shall be adopted by the shareholders.

Majority Voting for Directors. Subject to the provisions set forth in Watsco's By-Laws, a majority of the votes cast shall elect the directors and any other action shall be authorized by a majority of the votes cast, except where the laws of the State of Florida prescribe a different percentage of votes and/or a different exercise of voting power.

Distributions*.* If at any time a stock distribution is to be paid, such stock distribution may be declared and paid only as follows:

- So long as no shares of Common Stock have been issued or are outstanding, shares of Common Stock may be paid to holders of Class B Common Stock.

- Shares of Common Stock may be paid to holders of Common Stock and Class B Common Stock may be paid to holders of Class B Common Stock.

- Whenever a stock distribution is paid, the same number of shares shall be paid with respect to each outstanding share of Common Stock or one Class B Share. Watsco shall not combine or subdivide shares of either class without at the same time making an appropriate combination or subdivision of shares of the other class.

Right to Receive Liquidation Distributions. Upon Watsco's liquidation, dissolution or winding-up, after payment in full of its liabilities and the amounts required to be paid to holders of any outstanding shares of preferred stock, if any, all holders of Watsco's Common Stock will be entitled to receive a pro rata distribution of all of its assets and funds legally available for distribution.

Preemptive and Redemptive Provisions. No shares of Watsco's Common Stock are subject to redemption or have preemptive rights to purchase additional shares of Watsco's Common Stock or any of its other securities.

Conversion Provisions. Each holder of record of Class B Common Stock may at any time or may from time to time, in such holders' sole discretion and at such holders' option, convert any whole number or all of such holders' Class B Common Stock into fully paid and non-assessable shares of Common Stock at the rate of one share of Common Stock for each share of Class B Common Stock surrendered for conversion. Any such conversion may be effected by any holder of Class B Common Stock surrendering such holder's certificate or certificates for the Class B Common Stock to be converted, duly endorsed, at the office of Watsco or any transfer agent for the Class B Common Stock, together with written notice to Watsco at such office that such holder elects to convert all or a specified number of Class B Common Stock and stating the name or names in which such holder desires the certificate or certificates for such Common Stock to be issued. Promptly thereafter, Watsco shall issue and deliver to such holder or holder's nominee, a certificate or certificates for the number of shares of Common Stock to which such holder will be entitled as aforesaid. Such conversion shall be deemed to have been made at the close of business at date of such surrender and the person or persons entitled to receive the Common Stock issuable on such conversion shall be treated for all purposes as the record holder or holders of such Common Stock on that date.

No fractional shares of Common Stock shall be issued on conversion of any Class B Common Stock but, in lieu thereof, Watsco shall pay in cash therefor the pro rata fair market value of any such fraction. (Article III 4) of Watsco's Amended and Restated Articles of Incorporation).

For a comparison of the five-year cumulative total return of Common Stock and Class B Common Stock, see page 27 of this prospectus.

1.6 Anti-Takeover Statutes

Affiliated Transactions Statute. Florida law contains provisions governing affiliated transactions. In general, these provisions prohibit a Florida corporation from engaging in affiliated transactions with an interested shareholder, which is any holder of more than 10% of its outstanding voting shares, for a period of three years following the date that such person became an interested shareholder, unless:

- a majority of disinterested directors; or
- the holders of two-thirds of the voting shares, other than the shares beneficially owned by the interested shareholder approve the affiliated transaction.

Affiliated transactions subject to this approval requirement include mergers, share exchanges, material dispositions of corporate assets not in the ordinary course of business, any dissolution of the corporation proposed by or on behalf of an interested shareholder or any reclassification, including reverse stock splits, recapitalizations or mergers of the corporation with its subsidiaries, which increases the percentage of voting shares owned beneficially by an interested shareholder by more than 5%.

Control Share Acquisitions Statute. A control share acquisition is an acquisition of voting shares by a person that, when added to all the other voting shares beneficially owned by that person, would cause that person's voting strength with respect to an election of directors to meet or exceed any of the following thresholds:

- one-fifth;
- one-third; or
- a majority.

Under Florida law, shares acquired in a control share acquisition have no voting rights unless such rights are granted by a majority vote of all outstanding shares other than those held by the acquiring person or any officer or employee director of the corporation, or the articles of incorporation or bylaws of the corporation provide that this regulation does not apply to acquisitions of its shares.

If voting rights are not granted and the corporation's articles of incorporation or bylaws permit, the acquiring person's shares may be repurchased by the corporation, at its option, at a price per share equal to the acquiring person's cost. This regulation was designed to deter certain takeovers of Florida public corporations.

Shareholder Rights Plans. Under Florida law, unless the articles of incorporation provide otherwise, a company may issue rights or options to purchase shares of the corporation to its shareholders pursuant to terms and conditions determined by the company's board of directors. A board of directors could create a rights plan which distinguishes within a class of shareholders by providing only some shareholders the right to purchase additional shares at discounted prices in certain circumstances. A rights plan could have the effect of significantly diluting the value of the shares owned by shareholders who do not receive or exercise such purchase rights. Rights plans are implemented to deter certain takeovers of Florida public corporations.

1.7 Indemnification of Directors and Officers

Florida law permits us, and Watsco's By-Laws require it to the fullest extent permitted by Florida law, to indemnify our officers and directors in connection with certain actions, suits and proceedings brought against them if they acted in good faith and believed their conduct to be in our best interests and, in the case of criminal actions, had no reasonable cause to believe that the conduct was unlawful. Florida law requires such indemnification when a director entirely prevails in the defense of any proceeding to which he was a party because he is or was a director of our company, and further provides that we may make any further indemnity and additional provision for advances and reimbursement of expenses, if authorized by our articles of incorporation or shareholder-adopted bylaws, except an indemnity against willful misconduct or a knowing violation of the criminal law.

1.8 Transferability

The Common Stock is registered under the Exchange Act and the currently outstanding shares are freely transferable. EACH HOLDER OF SHARES OF COMMON STOCK ASSUMES THE RISK OF ANY MARKET FLUCTUATIONS IN THE PRICE OF THE SHARES OF COMMON STOCK.

1.9 Registration Number

Watsco's United States Internal Revenue Service Employer Identification Number is 59-0778222. Watsco's registration number with the Secretary of the State of Florida is 194593.

1.10 Market Risks

Watsco is subject to a variety of market risks, including risks related to interests rates. For a description of these market risks, please see pages 18 – 19 (II. Market Risk Factors) in Chapter B above.

1.11 Purpose of the Listing and Liquidity

The Euronext listing is intended to attract investors based outside of the United States, particularly in Europe and to promote additional liquidity for all investors and provide greater access to Watsco's Common Stock among European fund managers who may be required to invest in Euro-zone markets or currencies only.

At this time, Watsco does not intend to enter into any agreement with a liquidity provider in connection with the listing of its Common Stock on Euronext. However, Watsco reserves the right to enter into such agreement in the future, subject to compliance with applicable legislation in France and the United States.

Until such time that an agreement is entered into with a liquidity provider (if ever), liquidity in the Common Stock will result initially from execution on Euronext of sell orders in respect of Common Stock currently traded on the NYSE and future trading in the Common Stock on Euronext with settlement through Euroclear France.

1.12 Market Capitalization for the US and French Markets

Based on 28,050,788 shares of Common Stock and 4,326,326 shares of Class B Common Stock issued and outstanding as of September 1, 2010 (excluding the 6,322,650 shares of Common Stock and the 48,263 shares of Class B Common Stock held in treasury, respectively), and the closing price of the Common Stock on the NYSE and the closing price of the Class B Common Stock on NYSE Amex on September 22, 2010 of $57.44 and $56.84, respectively, Watsco had a market capitalization on the NYSE of approximately $1.86 billion, which, based on the exchange rate on September 22, 2010 ($1 = EUR 0.7641), corresponds to approximately EUR 1.42 billion.

The market capitalization on Euronext is calculated on the total issued Common Stock, including the treasury shares, but excluding the Class B Common Stock. Based on the above figures, the market capitalization on September 22, 2010 was approximately $1.97 billion / EUR 1.51 billion.

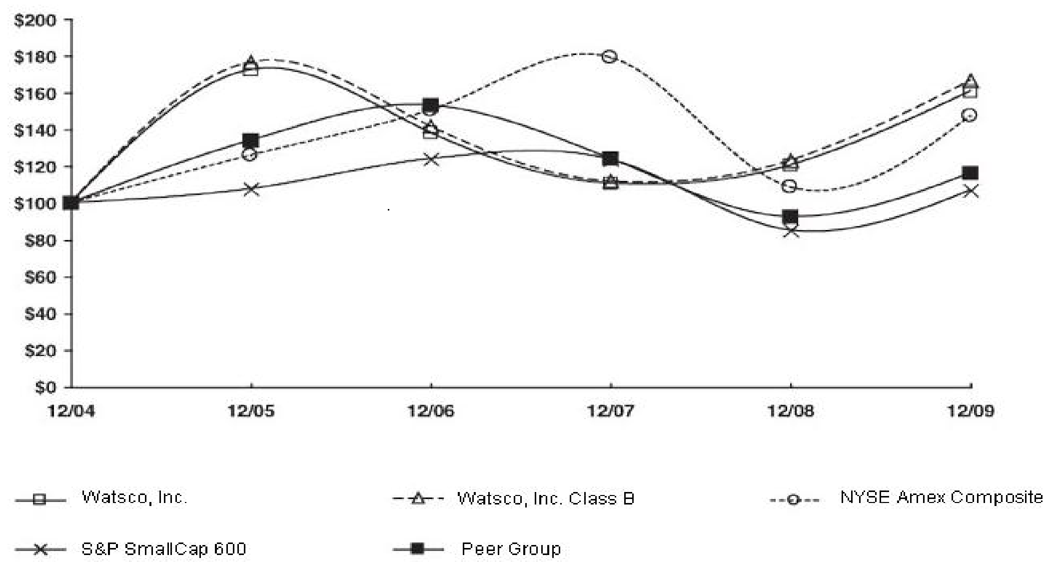
Please find below information concerning the Common Stock price performance and shareholder return performance:

Performance Graph

The following graph compares the cumulative five-year total return attained by shareholders on our Common Stock and Class B Common Stock relative to the cumulative total returns of the NYSE Amex Composite index, the S&P SmallCap 600 index and a customized peer group of companies, which are: Beacon Roofing Supply, Inc., Interline Brands, Inc., Lennox International Inc., Pool Corp and WESCO

International, Inc. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common stock, in each index and in the peer group on December 31, 2004 and its relative performance is tracked through December 31, 2009.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Watsco, Inc., the NYSE Amex Composite Index, the S&P SmallCap 600 Index and a Peer Group



	12/04	12/05	12/06	12/07	12/08	12/09
Watsco, Inc.	100.00	172.32	138.18	110.64	120.54	160.67
Watsco, Inc. Class B	100.00	176.40	141.68	111.85	123.05	166.44
NYSE Amex Composite	100.00	125.80	150.40	178.95	108.56	147.27
S&P SmallCap 600	100.00	107.68	123.96	123.59	85.19	106.97
Peer Group	100.00	133.92	153.07	124.15	92.53	116.17

* *The stock price performance included in this graph is not necessarily indicative of future stock price performance.*

II. STATEMENT OF CAPITALIZATION AND INDEBTEDNESS AS OF JUNE 30, 2010

The below tables are derived from Watsco's unaudited condensed consolidated financial statements.

2.1 Capitalization and Indebtedness (in thousands of US Dollars) at June 30, 2010

Total current debt	$ 153
- Guaranteed	-
- Secured	153
- Unguaranteed and Unsecured	-
Total non-current debt (excluding current portion of long-term debt)	$ 20,574
- Guaranteed	-
- Secured	574
- Unguaranteed / Unsecured	20,000
	$
Shareholders' equity	

a. Share capital and paid-in capital		487,549
b. Legal reserve		-
c. Total other reserves		263,812
- Accumulated other comprehensive loss, net of tax		(757)
- Retained earnings		378,994
- Treasury stock, at cost		(114,425)
Total shareholders' equity	$	919,832
- Total Watsco, Inc. shareholders' equity		751,361
- Non-controlling interests		168,471

2.2 Net Indebtedness (in thousands of US Dollars) at June 30, 2010

A.+B.	Cash and cash equivalents	**$**	7,214*
C.	Short-term investments		-
D.	**Liquidity** (A) + (B) + (C)	**$**	**7,214**
E.	**Current financial receivable**		**-**
F.	Current bank debt	**$**	-
G.	Current portion of non-current debt		153
H.	Other current financial debt		-
I.	**Other financial debt** (F) + (G) + (H)	**$**	**153**
J.	**Net current financial indebtedness** (I) – (E) – (D)	**$**	**(7,061)**
K.	Non-current bank loans		20,000
L.	Bonds issued		-
M.	Other non-current loans		574
N.	**Non-current financial indebtedness** (K) + (L) + (M)	**$**	**20,574**
O.	**Net financial indebtedness** (J) + (N)	**$**	**13,513**

* Represents available cash and cash equivalents as of June 30, 2010 with the right of offset for debt repayment.

For information relating to Watsco's indirect and contingent indebtedness, the reader's attention is called to Note 10. Financial Instruments - Off-Balance Sheet Financial Instruments and Note 12. Commitments and Contingencies in Watsco's 10-K.

III. DIRECTORS AND EXECUTIVE OFFICERS

3.1 Board of Directors as of April 9, 2010

Name	Age	Director Since
Albert H. Nahmad	69	December 1973
Cesar L. Alvarez	62	1997
Robert L. Berner III	48	2007
Denise Dickins	48	2007
Paul F. Manley	73	1984
Bob L. Moss	62	1992

Name	Age	Director Since
George P. Sape	65	2003
Gary L. Tapella	66	2006

3.2 Executive Officers as of April 9, 2010

Name	Age	Position
Albert H. Nahmad	69	Chairman of the Board, President and Chief Executive Officer
Barry S. Logan	47	Senior Vice President and Secretary
Paul W. Johnston	57	Vice President
Ana M. Menendez	45	Chief Financial Officer and Treasurer, Assistant Secretary

For at least the previous five years, none of the directors or executive officers of Watsco has:

(a) been convicted in relation to fraudulent offenses;

(b) been associated with any bankruptcies, receiverships or liquidations when acting in their capacity of directors or executive officers of Watsco; or

(c) been subject to any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies) or ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

There are no family relationships among any of the executive officers and directors listed above.

IV. EMPLOYEES

The below chart sets forth historical information regarding the approximate number of Wasco's employees for each of the fiscal years ended December 31, 2009, 2008 and 2007:

As of December 31	2009	2008	2007
Total	4,050	3,100	3,600

V. ORGANIZATIONAL STRUCTURE

Watsco is the parent company of a number of significant operating subsidiaries and other associated companies. Watsco holds, directly or indirectly, 100% of the capital and voting rights of each of the significant operating subsidiaries and 60% of Carrier Enterprise, LLC, as listed in Exhibit 21 to Watsco's 10-K.

VI. WORKING CAPITAL STATEMENT

As of the date of this prospectus, Watsco believes that it has adequate availability of capital from operations and its current credit facilities to fund working capital requirements (including debt service) and support the development of its short−term and long−term operating strategies for at least the next 12 months.

VII. TAX CONSEQUENCES

Set out below are the main French tax consequences likely to apply to French investors who will hold shares of Watsco under French domestic law in force on July 1st, 2010, and the U.S.-France income tax treaty signed August 31, 1994, as modified by a protocol signed December 8, 2004 (the "U.S.-French Tax Treaty").

On January 13, 2009, the U.S. and France signed a protocol that updates the U.S.-French Tax Treaty (the "Protocol"). The Protocol entered into force on December 23, 2009 with a retroactive effect on income subject to withholding tax as from January 1st, 2009. All other provisions of the Protocol have been applicable as from January 1st, 2010.

The tax regime described below may be modified by subsequent laws or regulations, which should be followed by the investors with the help of their usual advisor. In particular, the French government recently announced the levy of additional revenues within the framework of the reform of French pensions; thus changes on the tax regime described below should be expected in the coming months.

Please note that the information set out below is only a summary of the applicable tax regime. Each particular situation should be carefully analyzed by a tax advisor, especially regarding tax residence and the possible impact of citizenship.

7.1 Individual Investors who are French Tax Residents Holding Shares as a Private Investment

Article 13 of the U.S.-French Tax Treaty generally exempts certain gains (including stock gains) from source country taxation.

In accordance with Articles 150-0 A *et seq.* and 200 A of the French General Tax Code (the "GTC"), capital gains realized upon the disposal of shares of Watsco Common Stock will be subject as from the first Euro to tax on income at a flat rate of 18% if the annual amount of the securities sold by all members of a single tax household (other than the sale of securities on which tax is deferred) exceeds a threshold currently set at € 25,830 for sales realized in 2010. Capital gains will also be subject to the following social taxes, which are non-deductible from the income taxable basis, as from the first euro, irrespective of the above mentioned threshold:

- the *contribution sociale généralisée* of 8.2% (Articles 1600-0C and 1600-0E of the GTC), collected according to the same procedures as income tax;
- the *prélèvement social* of 2% (Article 1600-0F *bis* of the GTC), collected according to the same procedures as income tax;
- the *contribution au remboursement de la dette sociale* of 0.5% (Article 1600-0L of the GTC), collected according to the same procedures as income tax;
- the *contribution additionnelle au prélèvement social* of 0.3% (Article 1649-0 A of the GTC); and
- the *contribution sociale* of 1.1% (Law n° 2008-1249 dated December 1, 2008).

In accordance with Article 150-0 D, 11° of the GTC, capital losses realized upon the disposal of shares of Watsco Common Stock may be deducted only from capital gains on sales of the same nature in the same year or in the ten years following such disposal. This provision implies, in particular, that the amount of the disposals of securities by members of the same tax household during the year of the capital loss exceeded the threshold of € 25,830 for 2010 mentioned above. This capital loss cannot be offset against other types of income. With respect to the 12.1% social taxes, capital loss can be offset against the capital gain of same nature realized by the household during the same year or during the 10 following years irrespective of the threshold (i.e., as from first Euro sale). The modified rules should be reviewed with a personal tax advisor prior to selling the shares and filing the relevant personal income tax return.

Shares of Watsco Common Stock will be included in the basis for the French wealth tax.

7.2 French Tax Resident Shareholders that are Legal Entities and Subject to Corporate Tax

As a general rule, capital gains and losses realized upon the disposal of shares of Watsco Common Stock will be included in the taxable income of companies taxable at the ordinary corporate tax rate of the 33.1/3%, as well as an additional contribution provided for under Article 235 *ter* ZC of the GTC, equal to 3.3% of the corporate income tax after a basis allowance that cannot exceed € 763,000 per twelve-month period, if applicable.

A specific tax treatment would apply in the case where shares of Watsco Common Stock would qualify as a controlling interest (*titres de participation*), held for at least two years from the date of the acquisition of shares of Watsco Common Stock.

Pursuant to Article 219-1 *a quinquies* of the GTC, the following shares constitute *titres de participation*: (i) shares qualifying as such under the accounting rules, (ii) shares acquired pursuant to a public offer of sale or exchange by the company that initiates it, or (iii) shares of a company that qualifies for the parent-subsidiary regime (the main criteria being the holding of at least 5% of the company's capital) and which are accounted as such, other than shares of predominantly real estate entities.

According to the provisions of Article 219-1 *a quinquies* of the GTC, net gains realized upon the disposal of such controlling interest (*titres de participation*) held for more than two years would qualify for the long-term capital gain regime under which capital gains are exempt from corporate income tax; nevertheless a 5% service charge (*quote part de frais et charges*) of the net capital gains will be taxed at the ordinary corporate tax rate of the 33.1/3%, as well as an additional contribution provided for under Article 235 *ter* ZC of the GTC amounting to 3.3% of the corporate income tax after a basis allowance which cannot exceed € 763,000 per twelve-month period, if applicable.

7.3 Other Shareholders who are French Tax Residents

Shareholders subject to a specific tax regime must determine which tax rules apply in their particular case in the event of capital gains or losses realized upon the disposal of shares of Watsco Common Stock.

7.4 Withholding Tax

Whether received in France or abroad, dividend payments, if any, made in respect of shares of Watsco Common Stock received by French tax residents must be included in the income taxable base, the computation being different between individuals and corporations subject to corporate tax. French tax resident individuals may elect for a withholding tax on the gross amount of dividends received.

Dividend payments received by French tax resident individuals are subject to the social taxes previously detailed in 7.1.

In accordance with Article 10(2)(b) of the U.S.-French Tax Treaty, dividend payments, if any, made on shares of Watsco Common Stock to a French shareholder, whether an individual or a legal entity, will generally be subject to a U.S. withholding tax at the rate of 15%, so long as the shareholder has provided a properly completed and executed IRS Form W-8BEN to the Paying Agent prior to the dividend payment and the French shareholder qualifies as a French tax resident under the applicable US-French Tax Treaty. If IRS Form W-8BEN is not provided to the Paying Agent prior to the dividend payment and/or if the French shareholder does not qualify as a French tax resident under the applicable US-French Tax Treaty, the dividend will be subject to US withholding tax at the U.S. statutory rate of 30%. In general, the Form W-8BEN will remain valid for three years. At the end of this three-year period, a new properly completed and executed IRS Form W-8BEN must be provided to the Paying Agent. The French taxpayer will be entitled to claim a credit for such U.S. withholding tax on the taxpayer's French tax return.

7.5 Other Taxes and Duties

No French taxes of a documentary nature, such as capital tax, stamp or registration tax or duty, are payable by or on behalf of a holder of shares of Watsco Common Stock by reason only of the purchase, ownership or disposal of such Common Stock, provided that no written agreement formalizing the transfer of Common Stock is executed in France.

VIII. DOCUMENTS ON DISPLAY

As a public company, we regularly file reports and proxy statements with the SEC. These reports are required by the Exchange Act and include, but are not limited to:

- annual reports on Form 10-K;
- quarterly reports on Form 10-Q;
- current reports on Form 8-K; and
- proxy statements on Schedule 14A; and
- any amendments to those reports.

As of the date of this prospectus, no material changes to the information contained in Exhibits I to III to this prospectus have occurred except as otherwise included in this prospectus.

On September 17, 2009, we filed with the SEC a Form 8-K/A reporting the completion of the joint venture with Carrier effective July 1, 2009 and containing the financial statements and pro forma financial information required by the SEC's regulations.

The SEC maintains an Internet site at www.sec.gov that contains the reports, proxy and information statements, and other information that we file electronically.

We make available free of charge access to our SEC filings as soon as reasonably practicable after such materials are electronically filed with or furnished to the SEC through our website at www.watsco.com. Other reports filed with the SEC under the Exchange Act, are also available including the proxy statements and reports filed by officers and directors under Section 16(a) of that Act. These reports may be found on our website by selecting the option entitled "SEC Filings" under the "Investor Relations" section of the website. The reference to our website address does not constitute incorporation by reference of the information contained on our website and should not be considered part of this document.

Copies of the above referenced information will also be made available, free of charge, by calling + 1 305 714 4100 or upon written request to:

Watsco, Inc.
Investor Relations
2665 South Bayshore Drive, Suite 901
Coconut Grove, FL 33133, U.S.A.

CROSS-REFERENCE LISTS

ANNEX I

MINIMUM DISCLOSURE REQUIREMENTS FOR THE SHARE REGISTRATION DOCUMENT (SCHEDULE)

(Page numbering refers to the page contained in the relevant document)

Item #	Item contents	Chapter/Exhibit	Page/Section
1.	**PERSONS RESPONSIBLE**		
1.1.	All persons responsible for the information given in the prospectus	Prospectus	5 (Company Representatives for Prospectus)
		Exhibit I	Exhibits 31.1, 31.2, 31.3 and 32.1
		Exhibit II	Exhibits 31.1, 31.2, 31.3 and 32.1
1.2.	A declaration by those responsible for the prospectus	Prospectus	5 (Company Representatives for Prospectus)
2.	**STATUTORY AUDITORS**		
2.1.	Names and addresses of the issuer's auditors	Exhibit I	Exhibit 13 (Reports of Independent Registered Public Accounting Firms)
		Exhibit VII	Page after Cover Page (Report of Independent Registered Public Accounting Firm)
2.2.	If auditors have resigned, been removed or not been re-appointed during the period covered by the historical financial information, indicate details if material.	Exhibit I	14 (Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure)
3.	**SELECTED FINANCIAL INFORMATION**		
3.1.	Selected historical financial information	Exhibit I	Exhibit 13 (Selected Consolidated Financial Data)
3.2.	Interim periods	Exhibit I	Exhibit 13 (Selected Quarterly Financial Data (Unaudited))

Item #	Item contents	Chapter/Exhibit	Page/Section
4.	**RISK FACTORS**	Exhibit I	8 – 11 (Item 1A. Risk Factors)
5.	**INFORMATION ABOUT THE ISSUER**		
5.1.	**History and Development of the Issuer**		
5.1.1.	The legal and commercial name of the issuer	Exhibit I	Cover Page
5.1.2	The place of registration of the issuer and its registration number	Chapter C	26 (1.9 Registration Number)
		Exhibit I	Cover Page
5.1.3	The date of incorporation and the length of life of the issuer, except where indefinite	Exhibit I	3 (General)
5.1.4	The domicile and legal form of the issuer, the legislation under which the issuer operates, its country of incorporation, as well as the address and telephone number	Chapter C	20 (1.2 Legislation and Authorization Under Which the Securities Have Been Created)
		Exhibit I	Cover Page
5.1.5	Important events in the development of the issuer's business	Exhibit I	3 (General), 8 – 9 (Joint Venture with Carrier Corporation), Exhibit 13 (Company Overview) and Exhibit 13 (Note 7. Acquisitions and Note 13. Discontinued Operations)
		Exhibit II	10 – 11 (Note 6. Acquisitions)
5.2.	**Investments**		

Item #	Item contents	Chapter/Exhibit	Page/Section
5.2.1.	A description (including the amount) of the issuer's principal investments for each financial year for the period covered by the historical financial information up to the date of the prospectus	Exhibit I	3 (General), 8 – 9 (Joint Venture with Carrier Corporation) and Exhibit 13 (Company Overview) and Exhibit 13 (Note 7. Acquisitions)
		Exhibit II	10 – 11 (Note 6. Acquisitions)
5.2.2	A description of the issuer's principal investments that are in progress	Exhibit I	Exhibit 13 (Note 4., section entitled Other Long-Term Obligations), Exhibit 13 (Note 7. Acquisitions) and Exhibit 13 (Note 12., section entitled Operating Leases)
		Exhibit II	10 – 11 (Note 6. Acquisitions)
5.2.3	Information concerning the issuer's principal future investments on which its management bodies have already made firm commitments	Exhibit I	Exhibit 13 (Note 4., section entitled Other Long-Term Obligations), Exhibit 13 (Note 7. Acquisitions) and Exhibit 13 (Note 12., section entitled Operating Leases)
		Exhibit II	10 – 11 (Note 6. Acquisitions)
6.	**BUSINESS OVERVIEW**		
6.1.	**<u>Principal Activities</u>**		
6.1.1	A description of, and key factors relating to, the nature of the issuer's operations and its principal activities	Exhibit I	3 – 8 (Item 1. Business) and Exhibit 13 (Company Overview)

Item #	Item contents	Chapter/Exhibit	Page/Section
		Exhibit II	13 (Company Overview)
6.1.2	An indication of any significant new products and/or services that have been introduced	Exhibit I	8 – 9 (Joint Venture with Carrier Corporation)
6.2.	Principal markets	Exhibit I	6 (Markets) and 8 (Non-U.S. Operations)
6.3.	Where the information given pursuant to items **6.1.** and **6.2.** has been influenced by exceptional factors, mention that fact	Exhibit I	8 – 9 (Joint Venture with Carrier Corporation) and Exhibit 13 (Note 7. Acquisitions)
		Exhibit II	10 – 11 (Note 6. Acquisitions)
6.4.	The extent to which the issuer is dependent, on patents or licenses, industrial, commercial or financial contracts or new manufacturing processes	Exhibit I	9 (Supplier Concentration) and Exhibit 13 (Note 2. Supplier Concentration)
6.5.	Issuer's competitive position	Exhibit I	9 (Competition)
7.	**ORGANIZATIONAL STRUCTURE**		
7.1.	Description of the group	Chapter C	29 (V. Organizational Structure)
		Exhibit I	Exhibit 21
7.2.	A list of the issuer's significant subsidiaries	Exhibit I	Exhibit 21
8.	**PROPERTY, PLANTS AND EQUIPMENT**		
8.1.	Information regarding any existing or planned material tangible fixed assets	Exhibit I	11 (Item 2. Properties) and Exhibit 13 (Note 1. section entitled Property and Equipment)
8.2.	Environmental issues that may affect the issuer's utilization of the tangible fixed assets	Exhibit I	7 (Government Regulations, Environmental and Health and Safety Matters)
9.	**OPERATING AND FINANCIAL REVIEW**		

Item #	Item contents	Chapter/Exhibit	Page/Section
9.1.	Financial condition	Exhibit I	Exhibit 13 (Management's Discussion and Analysis of Financial Condition and Results of Operations up to Liquidity and Capital Resources)
		Exhibit II	12 – 14 (Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations up to Liquidity and Capital Resources)
9.2.	**<u>Operating Results</u>**		
9.2.1.	Significant factors materially affecting the issuer's income from operations	Exhibit I	Exhibit 13 (Management's Discussion and Analysis of Financial Condition and Results of Operations up to Liquidity and Capital Resources)
		Exhibit II	13 – 18 (Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations up to Liquidity and Capital Resources)
9.2.2	Material changes in net sales or revenues	Exhibit I	Exhibit 13 (Revenues)
		Exhibit II	14 (Revenues)
9.2.3.	Governmental, economic, fiscal, monetary or political policies or factors that have materially affected, or could materially affect, directly or indirectly, the issuer's operations	Exhibit I	9 (Continuing Decline in Economic Conditions)
10.	**CAPITAL RESOURCES**		
10.1.	Issuer's capital resources	Exhibit I	Exhibit 13 (Liquidity and Capital Resources)
		Exhibit II	16 – 18 (Liquidity and Capital Resources)

Item #	Item contents	Chapter/Exhibit	Page/Section
10.2.	Narrative description of the issuer's cash flows	Exhibit I	Exhibit 13 (Liquidity and Capital Resources)
		Exhibit II	16 – 18 (Liquidity and Capital Resources)
		Exhibit VI	Exhibit 99.1 (Cash Flow and Dividends)
10.3.	Information on the borrowing requirements and funding structure of the issuer	Exhibit I	Exhibit 13 (Financing Activities) and Exhibit 13 (Note 4. Long-Term Obligations)
		Exhibit II	17 – 18 (Financing Activities)
10.4.	Information regarding any restrictions on the use of capital resources	Exhibit I	Exhibit 13 (Note 4. Long-Term Obligations)
10.5.	Information regarding the anticipated sources of funds needed to fulfill commitments referred to in items **5.2.3.** and **8.1.**	Exhibit I	Exhibit 13 (Liquidity and Capital Resources)
		Exhibit II	16 – 18 (Liquidity and Capital Resources)
11.	**RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES**	Exhibit I	Exhibit 13 (Note 12., section entitled Minimum Royalty Payments)
12.	**TREND INFORMATION**		
12.1.	Significant trends that affected production, sales and inventory, and costs and selling prices since the end of the last financial year to the date of the prospectus	Exhibit I	9 (Continuing Decline in Economic Conditions)
		Exhibit VI	All pages
12.2.	Trends, uncertainties or events that are likely to affect the issuer for at least the current financial year	Exhibit I	8 – 11 (Item 1A. Risk Factors)
		Exhibit II	13 (Safe Harbor Statement)
		Exhibit VI	All pages

Item #	Item contents	Chapter/Exhibit	Page/Section
13.	**PROFIT FORECASTS OR ESTIMATES**	Not Applicable	Not Applicable
14.	**ADMINISTRATIVE, MANAGEMENT, SUPERVISORY BODIES AND SENIOR MANAGEMENT**		
14.1.	Names, business addresses and functions in the issuer of the following persons and an indication of the principal activities performed by them outside the issuer where these are significant with respect to that issuer: a) members of the administrative, management or supervisory bodies;	Exhibit III	5 – 7 (Director Biographies and Qualifications)
	b) partners with unlimited liability, in the case of a limited partnership with a share capital;	Not applicable	Not applicable
	c) founders, if the issuer has been established for fewer than five years; and	Not applicable	Not applicable
	d) any senior manager who is relevant to establishing that the issuer has the appropriate expertise and experience for the management of the issuer's business.	Exhibit III	17 – 18 (Executive Officers)
	The nature of any family relationship between any of those persons	Chapter C	29 (3.2. Executive Officers as of April 9, 2010)
	In the case of each member of the administrative, management or supervisory bodies of the issuer and each person mentioned in points (b) and (d) of the first subparagraph, details of that person's relevant management expertise and experience and the following information: (a) the nature of all companies and partnerships of which such person has been a member of the administrative, management and supervisory bodies or partner at any time in the previous five years, indicating whether or not the individual is still a member of the administrative, management or supervisory bodies or partner. It is not necessary to list all the subsidiaries of an issuer of which the person is also a member of the administrative, management or supervisory bodies or partner;	Exhibit III	5 – 7 (Director Biographies and Qualifications)
	(b) any convictions in relation to fraudulent offences for at least the previous five years; (c) details of any bankruptcies, receiverships or	Chapter C	29 (3.2. Executive Officers as of April 9, 2010)

Item #	Item contents	Chapter/Exhibit	Page/Section
	liquidations with which a person described in (a) and (d) of the first subparagraph who was acting in the capacity of any of the positions set out in (a) and (d) of the first subparagraph was associated for at least the previous five years; (d) details of any official public incrimination and/or sanctions of such person by statutory or regulatory authorities (including designated professional bodies) and whether such person has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer for at least the previous five years. If there is no such information to be disclosed, a statement to that effect is to be made.		
14.2.	Administrative, management, and supervisory bodies and senior management conflicts of interests	Exhibit III	9 (Director Independence) and 12 – 13 (Certain Relationships and Related Person Transactions)
15.	**REMUNERATION AND BENEFITS**		
15.1.	The amount of remuneration paid to the members of the administrative, management, supervisory and senior management bodies or to the general managers of the issuer	Exhibit III	12 (Director Compensation) and 19 – 28 (Executive Compensation through 2009 Summary Compensation Table)
15.2.	The total amounts set aside or accrued by the issuer or its subsidiaries to provide pension, retirement or similar benefits to the above persons	Exhibit III	26 (Pension Plans)
16.	**Board Practices**		
16.1.	Date of expiration of the current term of office, if applicable, and the period during which the person has served in that office.	Exhibit III	5 – 7 (Proposal No. 1—Election of Directors)
		Exhibit IV	5 (Article V)
		Exhibit V	12 (Article II(1)(c) Election and Term)
16.2.	Information about members of the administrative, management or supervisory bodies' service contracts with the issuer of any of its subsidiaries	Exhibit III	26 (Severance Plan), 26 – 27 (Acceleration of

Item #	Item contents	Chapter/Exhibit	Page/Section
	providing for benefits upon termination of employment		Vesting; Change in Control) and 31 (Potential Payments Upon Termination or Change of Control)
16.3.	Information about the issuer's audit committee and remuneration committee, including the names of committee members and a summary of the terms of reference under which the committee operates	Exhibit III	10 – 11 (Board Committees), 19 (Compensation Committee Report) and 32 (Report of the Audit Committee)
16.4.	Compliance with corporate governance regime(s)	Exhibit I	8 (Corporate Governance) and Exhibits 31.1, 31.2, 31.3 and 32.1
		Exhibit II	Exhibits 31.1, 31.2, 31.3 and 32.1
		Exhibit III	7 – 8 (Corporate Governance)
17.	**EMPLOYEES**		
17.1.	Number of employees	Chapter C	29 (IV. Employees)
		Exhibit I	7 (Employees)
17.2.	Shareholdings and stock options with respect to each person referred to in points (a) and (d) of the first subparagraph of item 14.1.	Exhibit I	10 (Control by Existing Shareholder)
		Exhibit III	14 – 16 (Stock Ownership), 23 – 24 (Long-Term Share-Based Compensation) and 29 – 31 (2009 Grants of Plan-Based Awards through 2009 Option Exercises and Stock Vested)
17.3	Description of any arrangements for involving the employees in the capital of the issuer	Exhibit I	Exhibit 13 (Note 6. Share-Based Compensation and Benefit Plans)

Item #	Item contents	Chapter/Exhibit	Page/Section
		Exhibit II	11 (Non-Vested (Restricted) Stock), 11 (Stock Options) and 11 (Employee Stock Purchase Plan)
		Exhibit III	17 – 18 (Securities Authorized for Issuance Under Equity Compensation Plans)
18.	**Major Stockholders**		
18.1.	Name of any stockholders who are not members of administrative and/or management bodies	Exhibit III	14 – 16 (Stock Ownership)
18.2.	Whether the issuer's major stockholders have different voting rights	Chapter C	21 – 22 (Voting Rights)
		Exhibit IV	2 – 4 (Article III.B. (3))
		Exhibit V	8 – 10 (Article I.5(i))
18.3.	Information on the persons directly or indirectly controlling the issuer	Exhibit I	10 (Control by Existing Shareholder)
18.4.	Agreement known to the issuer that may result in a change in control of the issuer	Not Applicable	Not Applicable
19.	**RELATED PARTY TRANSACTIONS**	Exhibit I	Exhibit 13 (Note 14. Related Party Transactions)
		Exhibit II	12 (Note 9. Related Party Transactions)
		Exhibit III	12 – 13 (Certain Relationships and Related Person Transactions)
20.	**FINANCIAL INFORMATION CONCERNING THE ISSUER'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES**		

Item #	Item contents	Chapter/Exhibit	Page/Section
20.1.	Historical Financial Information Consolidated balance sheets of Watsco, Inc. and subsidiaries as of December 31, 2009 and 2008 and the related consolidated statements of income, cash flows, and shareholders' equity for the each of the three years in the period ended December 31, 2009	Exhibit I	Exhibit 13 (Consolidated Balance Sheets), Exhibit 13 (Consolidated Statements of Income), Exhibit 13 (Consolidated Statements of Shareholders' Equity), Exhibit 13 (Consolidated Statements of Cash Flows) and Exhibit 13 (Notes to Consolidated Financial Statements)
	Consolidated balance sheets of Watsco, Inc. and subsidiaries as of December 31, 2008 and 2007 and the related consolidated statements of income, cash flows, and shareholders' equity for the each of the three years in the period ended December 31, 2008	Exhibit VII	All pages
20.2.	Pro forma financial information	Exhibit I	Exhibit 13 (Note 7. Acquisitions)
		Exhibit II	10 (Note 6. Acquisitions)
20.3.	Financial statements Consolidated balance sheets of Watsco, Inc. and subsidiaries as of December 31, 2009 and 2008 and the related consolidated statements of income, cash flows, and shareholders' equity for the each of the three years in the period ended December 31, 2009	Exhibit I	Exhibit 13 (Consolidated Balance Sheets), Exhibit 13 (Consolidated Statements of Income), Exhibit 13 (Consolidated Statements of Shareholders' Equity), Exhibit 13 (Consolidated Statements of Cash Flows) and Exhibit 13 (Notes to Consolidated Financial Statements)
	Consolidated balance sheets of Watsco, Inc. and subsidiaries as of December 31, 2008 and 2007 and the related consolidated statements of income, cash flows, and shareholders' equity for	Exhibit VII	All pages

Item #	Item contents	Chapter/Exhibit	Page/Section
	the each of the three years in the period ended December 31, 2008		
20.4.	**<u>Auditing of historical annual financial information</u>**		
20.4.1.	Statement that the historical financial information has been audited	Exhibit I	Exhibit 13 (Reports of Independent Registered Public Accounting Firms)
	Reports of Independent Registered Public Accounting Firms on consolidated balance sheets of Watsco, Inc., the related consolidated statements of income, cash flows, and shareholders' equity as of December 31, 2009, and for each of the three years in the period ended December 31, 2009.	Exhibit VII	Report of Independent Registered Public Accounting Firm
20.4.2.	Indication of other information in the prospectus which has been audited by the auditors	Not applicable	Not applicable
20.4.3.	Unaudited financial data in prospectus	Chapter C	27 – 28 (II. Statement of Capitalization and Indebtedness as of June 30, 2010)
		Exhibit I	Exhibit 13 (Selected Quarterly Financial Data)
		Exhibit II	3 – 12 (Item 1. Condensed Consolidated Unaudited Financial Statements)
		Exhibit VI	All pages
20.5.	**<u>Age of latest financial information</u>**		
20.5.1.	The last year of audited financial information	Exhibit I	Exhibit 13 (Reports of Independent Registered Public Accounting Firm)
20.6.	**<u>Interim and other financial information</u>**		
20.6.1.	Quarterly or half yearly financial information since the date of the last audited financial statements	Exhibit II	3 – 12 (Item 1. Condensed Consolidated Unaudited Financial Statements)
20.6.2.	Interim financial information	Not applicable	Not applicable

Item #	Item contents	Chapter/Exhibit	Page/Section
20.7.	**Dividend policy**	Chapter C	21 (Dividend Rights)
		Exhibit I	Exhibit 13 (Common Stock Dividends) and Exhibit 13 (Note 9. Shareholders' Equity)
		Exhibit II	18 (Common Stock Dividends) and 20 (Dividends)
		Exhibit IV	1 (Article III(B)(1) Dividends)
20.7.1.	The amount of the dividend per share for each financial year for the period covered by the historical financial information	Exhibit I	14 (Dividends), Exhibit 13 (Selected Consolidated Financial Data, table entry beginning "Cash dividends declared…"), Exhibit 13 (Note 16. Subsequent Events) and Exhibit 13 (Information on Common Stock)
		Exhibit II	11 (Dividends Declared), 18 (Common Stock Dividends) and 20 (Dividends)
20.8.	Legal and arbitration proceedings	Exhibit I	11 (Item 3. Legal Proceedings) and Exhibit 13 (Note 12., section entitled Litigation, Claims and Assessments)
20.9.	Significant change in the issuer's financial or trading position since the end of the last financial period	Not applicable	Not applicable
21.	**ADDITIONAL INFORMATION**		
21.1.	**Share Capital**		

Item #	Item contents	Chapter/Exhibit	Page/Section
1.1.1.	The amount of issued capital	Exhibit I	Exhibit 13 (Consolidated Balance Sheets and Consolidated Statements of Shareholders' Equity)
		Exhibit II	4 (Condensed Consolidated Balance Sheets)
		Exhibit III	2 (Paragraph beginning "The Board has set…")
		Exhibit IV	1 (Article III(A))
21.1.2.	Shares not representing capital	Not applicable	Not applicable
21.1.3.	Shares in the issuer held by the issuer or subsidiaries	Exhibit I	Cover Page
		Exhibit II	Cover Page
		Exhibit III	2 (Paragraph beginning "The Board has set…")
21.1.4.	The amount of any convertible securities, exchangeable securities or securities with warrants, with an indication of the conditions governing and the procedures for conversion, exchange or subscription	Exhibit I	Exhibit 13 (Note 9. Shareholders' Equity)
		Exhibit IV	4 (Article III(B)4))
		Exhibit V	17 (Article V)
21.1.5.	Information about and terms of any acquisition rights and or obligations over authorized but unissued capital or an undertaking to increase the capital	Chapter C	20 (1.1 Type and the Class of the Securities Being Offered, Including the Security Identification Code) and 24 (Conversion Provisions)
		Exhibit IV	4 (Article III(B)4))
21.1.6.	Information about any capital of any member of the group which is under option or agreed conditionally or unconditionally to be put under option	Exhibit I	Exhibit 13 (Note 6. Share-Based Compensation and Benefit Plans) and Exhibit 13 (Note 7. Acquisitions)
		Exhibit II	10 – 11 (Note 6. Acquisitions) and 11 (Stock Options and

Item #	Item contents	Chapter/Exhibit	Page/Section
			Employee Stock Purchase Plan)
		Exhibit III	12 (Director Compensation), 17 (Securities Authorized for Issuance Under Equity Compensation Plans), 23 – 24 (Long-Term Share-Based Compensation) and 29 – 31 (2009 Grants of Plan-Based Awards through 2009 Option Exercises and Stock Vested)
21.1.7.	A history of share capital for the period covered by the historical financial information	Exhibit I	Exhibit 13 (Consolidated Balance Sheets) and Exhibit 13 (Consolidated Statements of Shareholders' Equity)
21.2.	**<u>Memorandum and Articles of Association</u>**		
21.2.1.	Issuer's objects and purposes	Chapter C	20 (1.2 Legislation and Authorization Under Which the Securities Have Been Created)
21.2.2	A summary of any provisions of the issuer's articles of association, statutes, charter or bylaws with respect to the members of the administrative, management and supervisory bodies	Chapter C	22 (Board of Directors; Removal; Vacancies)
		Exhibit III	8 – 13 (Board of Directors)
		Exhibit IV	5 – 6 (Articles V, VI and VII)
		Exhibit V	12 – 16 (Articles II and III)
21.2.3.	A description of the rights, preferences and restrictions attaching to each class of the existing shares	Chapter C	21 – 24 (1.5 Rights Attached to the Securities)
		Exhibit IV	1 – 4 (Article III) and 5 (Article V)
		Exhibit V	8 – 10 (Article I.5(i)) and

Item #	Item contents	Chapter/Exhibit	Page/Section
			16 – 17 (Articles IV and V)
21.2.4.	What action is necessary to change the rights of holders of the shares	Chapter C	21 – 22 (Voting Rights) and 24 (Majority Voting for Directors)
		Exhibit IV	1 – 4 (Article III) and 5 (Article VI)
		Exhibit V	8 – 10 (Article I.5(i)) and 17 (Article VIII)
21.2.5.	Conditions governing the manner in which annual general meetings and extraordinary general meetings of stockholders are called	Chapter C	22 (Meetings of the Shareholders)
		Exhibit V	6 – 11 (Articles I.4 and I.5)
21.2.6.	Provisions of the issuer's articles of association, statutes, charter or bylaws that would have an effect of delaying, deferring or preventing a change in control of the issuer	Chapter C	21 – 22 (Voting Rights)
		Exhibit IV	1 – 4 (Article III) and 5 (Article VI)
		Exhibit V	8 – 10 (Article I.5(i))
21.2.7.	An indication of the articles of association, statutes, charter or bylaw provisions, if any, governing the ownership threshold above which stockholder ownership must be disclosed	Not applicable	Not applicable
21.2.8.	A description of the conditions imposed by the memorandum and articles of association statutes, charter or bylaw governing changes in the capital, where such conditions are more stringent than is required by law	Chapter C	21 – 22 (Voting Rights)
		Exhibit V	3 (Section III(B)(3)(i))
22.	**MATERIAL CONTRACTS**		

Item #	Item contents	Chapter/Exhibit	Page/Section
	Summary of material contracts	Exhibit I	7 (Key Suppliers through Distribution Agreements), 9 (Supplier Concentration), Exhibit 13 (Contractual Obligations and Off-Balance Sheet Arrangements), Exhibit 13 (Investing Activities and Revolving Credit Agreements), Exhibit 13 (Note 2. Supplier Concentration), Exhibit 13 (Note 4. Long-Term Obligations) and Exhibit 13 (Note 7. Acquisitions)
		Exhibit II	10 – 11 (Note 6. Acquisitions) and 18 (Revolving Credit Agreements)
23.	**THIRD PARTY INFORMATION AND STATEMENT BY EXPERTS AND DECLARATIONS OF ANY INTEREST**		
23.1.	Where a statement or report attributed to a person as an expert is included in the Registration Document, provide such person's name, business address, qualifications and material interest if any in the issuer	Not applicable	Not applicable
23.2.	Where information has been sourced from a third party, provide a confirmation that this information has been accurately reproduced	Not applicable	Not applicable
24.	**DOCUMENTS ON DISPLAY**	Chapter C	32 (VIII. Documents on Display)
25.	**INFORMATION ON HOLDINGS**	Chapter C	29 (V. Organizational Structure)
		Exhibit I	Exhibit 13 (Note 7. Acquisitions) and

Item #	Item contents	Chapter/Exhibit	Page/Section
			Exhibit 21 (Subsidiaries of the Registrant)
		Exhibit II	10 – 11 (Note 6. Acquisitions)

ANNEX III

MINIMUM DISCLOSURE REQUIREMENTS FOR THE SHARE SECURITIES NOTE (SCHEDULE)

(Page numbering refers to the page contained in the relevant documents)

Item #	Item contents	Chapter/Exhibit	Page/Section
1.	**PERSONS RESPONSIBLE**		
1.1.	All persons responsible for the information given in the prospectus.	Prospectus	5 (Company Representatives for Prospectus)
		Exhibit I	Exhibits 31.1, 31.2, 31.3 and 32.1
		Exhibit II	Exhibits 31.1, 31.2, 31.3 and 32.1
1.2.	A declaration by those responsible for the prospectus.	Prospectus	5 (Company Representatives for Prospectus)
2.	**RISK FACTORS**	Exhibit I	Exhibit 13 (Quantitative and Qualitative Disclosures About Market Risk)
		Exhibit II	18 (Item 3. Quantitative and Qualitative Disclosures About Market Risk)
3.	**KEY INFORMATION**		
3.1	Working capital statement	Chapter C	29 (VI. Working Capital Statement)
3.2	Capitalization and indebtedness	Chapter C	27 – 28 (II. Statement of Capitalization and Indebtedness as of June 30, 2010)
3.3	Interest of natural and legal persons involved in the issue/offer	Not applicable	Not applicable
3.4	Reasons for the offer and use of proceeds	Chapter C	26 (1.11 Purpose of the Listing and Liquidity)

Item #	Item contents	Chapter/Exhibit	Page/Section
4.	**INFORMATION CONCERNING THE SECURITIES TO BE OFFERED/ ADMITTED TO TRADING**		
4.1	Type and the class of the securities being offered, including the security identification code.	Chapter C	20 (1.1 Type and the Class of the Securities Being Offered, Including the Security Identification Code)
4.2	Legislation under which the securities have been created.	Chapter C	20 (1.2 Legislation Under Which the Securities Have Been Created)
4.3	Form of securities, name and address of the entity in charge of keeping the records.	Chapter C	20 – 21 (1.3 Form of Securities, Name and Address of the Entity in Charge of Keeping the Records)
4.4	Currency of the securities issue.	Chapter C	21 (1.4 Currency of the Securities Issue)
4.5	Rights attached to the securities	Chapter C	21 – 24 (1.5 Rights Attached to the Securities)
4.6	Statement of the resolutions, authorizations and approvals by virtue of which the securities have been or will be created and/or issued.	Not applicable	Not applicable
4.7	Expected issue date of the securities.	Not applicable	Not applicable
4.8	Description of any restrictions on the free transferability of the securities.	Chapter C	26 (1.8 Transferability)
4.9	Mandatory takeover bids and/or squeeze-out and sell-out rules in relation to the securities.	Chapter C	24 – 25 (1.6 Anti-Takeover Statutes)
4.10	An indication of public takeover bids by third parties in respect of the issuer's equity, which have occurred during the last financial year and the current financial year.	Not applicable	Not applicable
4.11	Information on taxes on the income from the securities withheld at source	Chapter C	30 – 32 (VII. Tax Consequences)
5.	**TERMS AND CONDITIONS OF THE OFFER**		
5.1	**Conditions, offer statistics, expected timetable and action required to apply for the offer**		

Item #	Item contents	Chapter/Exhibit	Page/Section
5.1.1	Conditions to which the offer is subject.	Not applicable	Not applicable
5.1.2	Total amount of the issue/offer.	Not applicable	Not applicable
5.1.3	Time period during which the offer will be open and description of the application process.	Not applicable	Not applicable
5.1.4	Circumstances under which the offer may be revoked or suspended and whether revocation can occur after dealing has begun.	Not applicable	Not applicable
5.1.5	Possibility to reduce subscriptions and the manner for refunding excess amount paid by applicants.	Not applicable	Not applicable
5.1.6	Minimum and/or maximum amount of application.	Not applicable	Not applicable
5.1.7	Period during which an application may be withdrawn.	Not applicable	Not applicable
5.1.8	Method and time limits for paying up the securities and for delivery of the securities.	Not applicable	Not applicable
5.1.9	Manner and date in which results of the offer are to be made public.	Not applicable	Not applicable
5.1.10	Procedure for the exercise of any right of pre-emption.	Not applicable	Not applicable
5.2	**Plan of distribution and allotment**		
5.2.1.	The various categories of potential investors to which the securities are offered.	Not applicable	Not applicable
5.2.2.	Indication of whether major shareholders or members of the issuer's management, supervisory or administrative bodies intended to subscribe in the offer, or whether any person intends to subscribe for more than five per cent of the offer.	Not applicable	Not applicable
5.2.3.	Pre-allotment Disclosure:		
a)	The division into tranches of the offer;	Not applicable	Not applicable
b)	The conditions under which the claw-back may be used;	Not applicable	Not applicable
c)	The allotment method or methods to be used for the retail and issuer’s employee tranche;	Not applicable	Not applicable
d)	Pre-determined preferential treatment to be accorded to certain classes of investors or certain affinity	Not applicable	Not applicable

Item #	Item contents	Chapter/Exhibit	Page/Section
	groups.		
e)	Whether the treatment of subscriptions or bids to subscribe in the allotment may be determined on the basis of which firm they are made through or by;	Not applicable	Not applicable
f)	A target minimum individual allotment if any within the retail tranche;	Not applicable	Not applicable
g)	The conditions for the closing of the offer as well as the date on which the offer may be closed at the earliest;	Not applicable	Not applicable
h)	Whether or not multiple subscriptions are admitted.	Not applicable	Not applicable
5.2.4.	Process for notification to applicants of the amount allotted.	Not applicable	Not applicable
5.2.5.	Over-allotment and 'green shoe':	Not applicable	Not applicable
a)	The existence and size of any over-allotment facility and/or 'green shoe'.	Not applicable	Not applicable
b)	The existence period of the over-allotment facility and/or 'green shoe'.	Not applicable	Not applicable
c)	Any conditions for the use of the over-allotment facility or exercise of the 'green shoe'.	Not applicable	Not applicable
5.3	**Pricing**		
5.3.1.	An indication of the price at which the securities will be offered.	Not applicable	Not applicable
5.3.2.	Process for the disclosure of the offer price.	Not applicable	Not applicable
5.3.3.	If the issuer’s equity holders have pre-emptive purchase rights and this right is restricted or withdrawn.	Not applicable	Not applicable
5.3.4	Where there is or could be a material disparity between the public offer price and the effective cash cost to members of the administrative, management or supervisory bodies or senior management, or affiliated persons, of securities acquired by them in transactions during the past year.	Not applicable	Not applicable
5.4.	**Placing and Underwriting**		
5.4.1	Name and address of the co-coordinator(s) of the global offer.	Not applicable	Not applicable

Item #	Item contents	Chapter/Exhibit	Page/Section
5.4.2	Name and address of any paying agents and depository agents in each country.	Chapter C	20 – 21 (1.3 Form of Securities, Name and Address of the Entity In Charge of Keeping the Records)
5.4.3.	Name and address of the entities agreeing to underwrite the issue on a firm commitment basis.	Not applicable	Not applicable
5.4.4.	When the underwriting agreement has been or will be reached.	Not applicable	Not applicable
6.	**ADMISSION TO TRADING AND DEALING ARRANGEMENTS**		
6.1	Whether the securities offered are or will be the object of an application for admission to trading.	Chapter C	20 (1.1 Type and the Class of the Securities Being Offered, Including the Security Identification Code)
6.2	Regulated markets or equivalent markets on which securities of the same class of the securities to be offered or admitted to trading are already admitted to trading.	Chapter C	20 (1.1 Type and the Class of the Securities Being Offered, Including the Security Identification Code)
6.3	Simultaneous private placement.	Not applicable	Not applicable
6.4	Details of the entities which have a firm commitment to act as intermediaries in secondary trading, providing liquidity.	Not applicable	Not applicable
6.5	**Stabilization**		
6.5.1.	The fact that stabilization may be undertaken, that there is no assurance that it will be undertaken and that it may be stopped at any time,	Not applicable	Not applicable
6.5.2.	The beginning and the end of the period during which stabilization may occur,	Not applicable	Not applicable
6.5.3.	Identity of the stabilization manager	Not applicable	Not applicable
6.5.4.	The fact that stabilization transactions may result in a market price that is higher than would otherwise prevail.	Not applicable	Not applicable
7.	**SELLING SECURITIES HOLDERS**		
7.1.	Name and business address of the person or entity	Not applicable	Not applicable

Item #	Item contents	Chapter/Exhibit	Page/Section
	offering to sell the securities.		
7.2.	The number and class of securities being offered by each of the selling security holders.	Not applicable	Not applicable
7.3.	Lock-up agreements	Not applicable	Not applicable
8.	**EXPENSE OF THE ISSUE/OFFER**		
8.1.	The total net proceeds and an estimate of the total expenses of the issue/offer.	Not applicable	Not applicable
9.	**DILUTION**		
9.1.	The amount and percentage of immediate dilution resulting from the offer.	Not applicable	Not applicable
9.2.	In the case of a subscription offer to existing equity holders, the amount and percentage of immediate dilution if they do not subscribe to the new offer.	Not applicable	Not applicable
10.	**ADDITIONAL INFORMATION**		
10.1.	If advisors connected with an issue are mentioned in the Securities Note, a statement of the capacity in which the advisors have acted.	Not applicable	Not applicable
10.2.	An indication of other information in the Securities Note which has been audited or reviewed by statutory auditors.	Not applicable	Not applicable
10.3.	Where a statement or report attributed to a person as an expert is included in the Securities Note, provide such persons' name, business address, qualifications and material interest if any in the issuer.	Not applicable	Not applicable
10.4.	Where information has been sourced from a third party.	Not applicable	Not applicable

EXHIBITS

EXHIBIT I

ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009, FILED BY WATSCO, INC. WITH THE SEC ON FEBRUARY 26, 2010

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

FORM 10-K

☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934
For the Fiscal Year Ended December 31, 2009

☐ 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

watsco

WATSCO, INC.
(Exact name of registrant as specified in its charter)

FLORIDA	**59-0778222**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

2665 South Bayshore Drive, Suite 901, Coconut Grove, FL 33133
(Address of principal executive offices, including zip code)

(305) 714-4100
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common stock, $.50 par value	New York Stock Exchange
Class B common stock, $.50 par value	NYSE Amex

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☒ NO ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

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 and 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form l0-K or any amendment to this Form l0-K. ☒

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 Act). YES ☐ NO ☒

The aggregate market value of the registrant’s voting stock (common stock) held by non-affiliates of the registrant as of June 30, 2009, the last business day of the registrant’s most recently completed second fiscal quarter, was approximately $1,206 million, based on the closing sale price of the registrant’s common stock on that date. For purposes of determining this number all executive officers and directors of the registrant as of June 30, 2009 are considered to be affiliates of the registrant. This number is provided only for the purposes of this report on Form 10-K and does not represent an admission by either the registrant or any such person as to the status of such person.

The number of shares of common stock outstanding as of February 24, 2010 was 27,998,454 shares of Common stock, excluding treasury shares of 6,322,650, and 4,333,489 shares of Class B common stock, excluding treasury shares of 48,263.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Parts I and II is incorporated by reference from the 2009 Annual Report, attached hereto as Exhibit 13. The information required by Part III (Items 10, 11, 12, 13 and 14) will be incorporated by reference from the Registrant’s definitive proxy statement (to be filed pursuant to Regulation 14A).

WATSCO, INC. AND SUBSIDIARIES

Index to 2009 Annual Report on Form 10-K Year Ended December 31, 2009

PART I

ITEM 1. BUSINESS

General

Watsco, Inc. and its subsidiaries (collectively, "Watsco," which may be referred to as *we*, *us* or *our*) was incorporated 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. Our revenues in HVAC/R distribution have increased from $64 million in 1989 to $2 billion in 2009 via a strategy of acquiring companies with established market positions and subsequently building revenue and profit through a combination of adding locations, products, services and other initiatives.

On July 1, 2009, we completed the formation of a joint venture with Carrier Corporation ("Carrier") to distribute Carrier, Bryant and Payne products throughout the U.S. Sunbelt, Latin America and the Caribbean. In the formation of the joint venture, Carrier contributed 95 locations in the U.S. Sunbelt and Puerto Rico and the export division located in Miami, Florida and we contributed 15 locations that currently distribute Carrier, Bryant and Payne products. We purchased a 60% controlling interest in the joint venture with options to purchase up to an additional 20% interest from Carrier (10% beginning in July 2012 and an additional 10% in July 2014). Of our existing network, the newly formed joint venture, Carrier Enterprise, LLC ("Carrier Enterprise"), represents 110 locations in 20 states and Puerto Rico and serves over 19,000 air conditioning and heating contractors. Including Carrier Enterprise, we currently operate from 505 locations in 36 states and serve over 50,000 customers.

Our principal executive office is located at 2665 South Bayshore Drive, Suite 901, Coconut Grove, Florida 33133, and our telephone number is (305) 714-4100. Our website address on the Internet is www.watsco.com and e-mails may be sent to info@watsco.com.

Residential Central Air Conditioning, Heating and Refrigeration Industry

The HVAC/R distribution industry is highly fragmented with over 1,300 distribution companies. The industry is well-established having its primary period of growth during the post-World War II era with the advent of affordable central air conditioning and heating systems for residential applications.

Based on data published in 2009 by the Air Conditioning, Heating and Refrigeration Institute ("AHRI") and other available data, we estimate the market for residential central air conditioning, heating and refrigeration equipment and related parts and supplies in the United States is approximately $22 billion. Residential central air conditioners are manufactured primarily by seven major companies that together account for approximately 90% of all units shipped in the United States each year. These companies are: Carrier, a unit of United Technologies Corporation, Goodman Manufacturing Company, L.P. ("Goodman"), a subsidiary of Goodman Global, Inc., Rheem Manufacturing Company ("Rheem"), Trane Inc. ("Trane"), a subsidiary of Ingersoll-Rand Company Limited, York International Corporation ("York"), a subsidiary of Johnson Controls, Inc., Lennox International, Inc. ("Lennox") and Nordyne Corporation ("Nordyne"), a subsidiary of Nortek Corporation. These manufacturers distribute their products through a combination of factory-owned and independent distributors who, in turn, supply the equipment and related parts and supplies to contractors and dealers nationwide that sell to and install the products for the consumer and other end-users.

Residential central air conditioning and heating equipment is sold to both the replacement and the new construction markets. The replacement side of the market has increased in size relative to the total market over the past several years as a result of the aging of the installed base of residential central air conditioners and furnaces, the introduction of new higher energy efficient models, the remodeling and expansion of existing homes, the addition of central air conditioning to homes that previously had only heating products and consumers' overall unwillingness to live without air conditioning or heating products. According to industry data published by the AHRI, over 120 million central air conditioning units and furnaces have been installed in the United States in the past 20 years. Many of these installed units have reached the end of their useful lives, thus providing a growing and stable replacement market. The mechanical life of central air conditioning and furnaces varies by geographical region due to usage and is estimated to range from 8 to 20 years.

We also sell products to the refrigeration market. Such products include condensing units, compressors, evaporators, valves, refrigerant, walk-in coolers and ice machines for industrial and commercial applications. We distribute products manufactured by Copeland Compressor Corporation, a subsidiary of Emerson Electric Co. ("Emerson"), E. I. Du Pont De Nemours and Company ("DuPont"), Mueller Industries, Inc., Owens Corning Insulating Systems, LLC and The Manitowoc Company, Inc. ("Manitowoc").

Business Strategy

We have a "buy and build" strategy that has produced substantial long-term growth in sales and profits. The "buy" component of the strategy focuses on acquiring existing market leaders either by expanding into new geographic areas or gaining additional market share in existing markets. We employ a disciplined and conservative approach that seeks opportunities that fit well-defined financial and strategic criteria. The “build” component of the strategy focuses on implementing a growth culture at acquired companies, by adding products and locations to better serve our customers, exchanging ideas and business concepts amongst the executive management teams and investing in new technologies. Newly acquired businesses have access to our capital resources and established vendor relationships to provide their customers with an expanded array of product lines on favorable terms and conditions with an intensified commitment to service.

Strategy in Existing Markets

Our strategy for growth in existing markets focuses on customer service and product expansion to satisfy the needs of the higher growth, higher margin replacement market, where customers generally demand immediate, convenient and reliable service. In response to this need, our focus is to (i) offer a broad range of product lines, including the necessary equipment, parts and supplies to enable a contractor to install or repair a central air conditioner, furnace or refrigeration system, (ii) maintain a strong density of warehouse locations for increased customer convenience, (iii) maintain well-stocked inventories to ensure that customer orders are filled in a timely manner, (iv) provide a high degree of technical expertise at the point of sale and (v) develop and implement technology to further enhance customer service capabilities. We believe these concepts provide a competitive advantage over smaller, less-capitalized competitors who are unable to commit resources to open and maintain additional locations, implement technological business solutions, provide the same range of products, maintain the same inventory levels or attract the wide range of expertise that is required to support a diverse product offering. In some geographic areas we believe we have a competitive advantage over factory-operated distributor networks who typically do not maintain as diversified inventories of parts and supplies and whose fewer number of warehouse locations make it more difficult to meet the time-sensitive demands of the replacement market.

In addition to the replacement market, we sell to the new construction market. We believe our reputation for reliable, high-quality service and relationships with contractors, who may serve both the replacement and new construction markets, allow us to compete effectively in these markets.

Acquisition Strategy

Our acquisition strategy is focused on acquiring businesses that complement our current presence in existing markets or establish a presence in new markets. Since 1989, we have acquired 54 HVAC/R distribution businesses, three of which currently operate as primary operating subsidiaries. In July 2009, we formed a joint venture with Carrier in which Carrier contributed 95 locations and we contributed 15 locations. The newly formed joint venture, Carrier Enterprise, operates as our fourth primary operating subsidiary. The other smaller distributors acquired have been integrated into or are under the management of the primary operating subsidiaries. We continue to pursue additional strategic acquisitions to allow further penetration in existing markets and expand into new geographic markets.

Product Line Expansion

We actively seek new or expanded territories of distribution from the key equipment suppliers. Significant relationships currently exist with Carrier, Rheem, Goodman, Nordyne and Trane. We continually evaluate new parts and supply products to support equipment sales and further enhance service to our customers. The initiative includes increasing the product offering with existing vendors and identifying new product opportunities through traditional and non-traditional supply channels. We have also introduced private-label products as a means to obtain market share and grow revenues. We believe that the private-label brand products complement the existing offerings at the selected locations based on their particular market position, price-point and customer needs.

Operating Philosophy

Our subsidiaries operate in a manner that recognizes the long-term relationships established between the distributors and their customers. Typically, the identity and culture of acquired businesses continue by retaining their historical trade-name, management team and sales organization and by continuing the product brand-name offerings. We believe this strategy builds on the value of the acquired operations by creating additional sales opportunities and is an attractive exit strategy for the existing ownership of the long-standing distribution companies targeted for acquisition.

A specialized functional support staff is maintained at our corporate headquarters to support the subsidiaries’ strategies for growth in their respective markets. Such functional support includes specialists in finance, accounting, product procurement, treasury and working capital management, tax planning, risk management and safety. Certain general and administrative expenses are targeted for cost savings by leveraging the overall business volume and improving operating efficiencies.

Technology

Our technology initiatives include: (i) implementation of effective point-of-sale systems that allow timely and effective customer service, including up-to-date pricing, credit checks, credit card processing and inventory availability, (ii) enabling connectivity with our suppliers and by our customers to the relevant components of our subsidiaries' business software and (iii) developing our website, ACDoctor.com, that educates consumers about energy efficient HVAC solutions and financial incentives related to the installation of energy efficient systems and connects them with high quality contractors.

DESCRIPTION OF BUSINESS

Products

We sell an expansive line of products and maintain a diverse mix of inventory to meet our customers' immediate needs and seek to provide products a contractor would generally require when installing or repairing a central air conditioner, furnace or refrigeration system on short notice. The cooling capacity of air conditioning units is measured in tons. One ton of cooling capacity is equivalent to 12,000 BTUs and is generally adequate to air condition approximately 500 square feet of residential space. The products we distribute consist of: (i) equipment, including residential central air conditioners ranging from 1-1/2 to 5 tons, gas, electric and oil furnaces ranging from 50,000 to 150,000 BTUs, commercial air conditioning and heating equipment and systems ranging from 1-1/2 to 25 tons, and other specialized equipment, (ii) parts, including replacement compressors, evaporator coils, motors and other component parts and (iii) supplies, including thermostats, insulation material, refrigerants, ductwork, grills, registers, sheet metal, tools, copper tubing, concrete pads, tape, adhesives and other ancillary supplies.

Sales of HVAC equipment accounted for 55% and 44% of our revenues for the years ended December 31, 2009 and 2008, respectively. Sales of other HVAC products (currently sourced from over 600 vendors) comprised 36% and 43% of our revenues for the years ended December 31, 2009 and 2008, respectively. Sales of commercial refrigeration products accounted for 9% and 13% of our revenues for the years ended December 31, 2009 and 2008, respectively.

Distribution and Sales

At December 31, 2009, we operated from 505 locations, a vast majority of which are located in regions that we believe have favorable demographic trends. We maintain large inventories at each warehouse location and either directly delivering products to customers using one of our 805 trucks or by making products available for pick-up at the location nearest to the customer. Watsco has approximately 600 commissioned salespeople, averaging 12 years or more of experience in the HVAC/R distribution industry.

Markets

The table below identifies the number of locations by state as of December 31, 2009:

Florida	101
Texas	94
Georgia	39
North Carolina	39
California	38
South Carolina	28
Tennessee	25
Louisiana	19
Virginia	18
Mississippi	13
Alabama	8
Arizona	8
Missouri	8
Maryland	7
Puerto Rico	7
Arkansas	6
Kansas	6
Massachusetts	5
Oklahoma	5
Utah	5
Colorado	3
Iowa	2
Kentucky	2
Maine	2
Nebraska	2
Nevada	2
New York	2
South Dakota	2
Connecticut	1
Illinois	1
New Hampshire	1
New Jersey	1
New Mexico	1
North Dakota	1
Rhode Island	1
Vermont	1
West Virginia	1
TOTAL	505

Customers and Customer Service

We currently serve over 50,000 contractors and dealers who service the replacement and new construction markets for residential and light commercial central air conditioning, heating and refrigeration systems. No single customer in 2009, 2008 or 2007 represented more than 1% of consolidated revenues. We focus on providing products where and when the customer needs them, technical support by phone or on site as required, and quick and efficient service at our locations. Increased customer convenience is also provided through e-commerce, which allows customers to access information on-line 24 hours a day, seven days a week to search for desired products, verify inventory availability, obtain pricing, place orders, check order status, schedule pickup or delivery times and make payments. We believe we compete successfully with other distributors primarily on the basis of an experienced sales organization, strong service support, high quality reputation and broad product lines.

Key Suppliers

Significant relationships are maintained with Carrier, Rheem, Goodman, Nordyne, Trane, Emerson, Manitowoc and DuPont, each a leading manufacturer of HVAC/R products in the United States. Each manufacturer has a well-established reputation of producing high-quality, competitively priced products. The manufacturers' current product offerings, quality, serviceability and brand-name recognition allow us to operate favorably relative to our competitors. To maintain brand-name recognition, the manufacturers of air conditioning and heating equipment provide national advertising and participate with us in cooperative advertising programs and promotional incentives that are targeted to both contractors and end-users. We estimate that the replacement market for air conditioning products currently accounts for approximately 85% of industry sales in the United States and is expected to increase as units installed in the past 20 years wear out and get replaced or updated to more energy-efficient models as well as the significant decline in sales to the new construction market.

As a result of the formation of Carrier Enterprise, our purchases from Carrier and its affiliates comprised 41% of all purchases made during 2009. Purchases made from Carrier and its affiliates were 13% and 11% of all purchases made in 2008 and 2007, respectively. Approximately 66%, 48% and 48% of purchases in 2009, 2008 and 2007, respectively, were made from the six key HVAC/R equipment suppliers. A significant interruption in the delivery of these products could impair our ability to continue to maintain current inventory levels and could adversely affect our financial results. Future financial results are also materially dependent upon the continued market acceptance of these manufacturers' products and their ability to continue to manufacture products that comply with laws relating to environmental and efficiency standards. See "Business Risk Factors" in Item 1A. We believe that sales of other complementary equipment products and continued emphasis to expand sales of parts and supplies are mitigating factors against such risks.

Distribution Agreements

Distribution agreements have been executed with several of our key suppliers either on an exclusive or non-exclusive basis for terms generally ranging from one to ten years. Certain of the distribution agreements contain provisions that restrict or limit the sale of competitive products in the markets served. Other than the markets where such restrictions and limitations may apply, we may distribute other manufacturers' lines of air conditioning or heating equipment.

Carrier Enterprise maintains separate and distinct trade names and distributor agreements with Carrier. These agreements allow Carrier Enterprise to distribute certain HVAC products on an exclusive basis in select territories and use certain trade names associated with the products it distributes. See *Supplier Concentration* in "Business Risk Factors" in Item 1A.

Seasonality

Sales of residential central air conditioners, heating equipment and parts and supplies have historically been seasonal. See "Business Risk Factors" in Item 1A.

Competition

We operate in highly competitive environments. See "Business Risk Factors" in Item 1A.

Employees

There were approximately 4,050 employees as of December 31, 2009, substantially all of which are non-union employees. Most of these employees are employed on a full-time basis and relations with employees are good.

Order Backlog

Order backlog is not a material aspect of the business and no material portion of the business is subject to government contracts.

Government Regulations, Environmental and Health and Safety Matters

Our business is subject to federal, state and local laws and regulations relating to the storage, handling, transportation and release of hazardous materials into the environment. These laws and regulations include the Clean Air Act, relating to minimum energy efficiency standards of HVAC systems and the production, servicing and disposal of certain ozone-depleting refrigerants used in such systems, including those established at the Montreal Protocol in 1992 concerning the phase-out of the production of CFC-based refrigerants on January 1, 2010 for use in new equipment. We are also subject to regulations concerning the transport of hazardous materials, including regulations adopted pursuant to the Motor Carrier Safety Act of 1990. Our operations are also subject to health and safety requirements including the Occupational, Safety and Health Act. Management believes that the business is operated in substantial compliance with all applicable federal, state and local provisions relating to the protection of the environment, transport of hazardous materials and health and safety requirements.

Non-U.S. Operations

All of our operations are within the United States and Puerto Rico. Products are sold on an export-only basis to portions of Latin America and the Caribbean Basin and export sales are approximately 4% of total revenues. We do not have any international locations.

ADDITIONAL INFORMATION

Filings with the Securities and Exchange Commission

As a public company, we regularly file reports and proxy statements with the Securities and Exchange Commission ("SEC"). These reports are required by the Securities Exchange Act of 1934 and include, but are not limited to:

- annual reports on Form 10-K;
- quarterly reports on Form 10-Q;
- current reports on Form 8-K and
- proxy statements on Schedule 14A.

The public may read and copy any of the materials we file with the SEC at the SEC's Public Reference Room at 100 F. Street N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site at www.sec.gov that contains the reports, proxy and information statements, and other information that we file electronically.

We make available free of charge access to our SEC filings as soon as reasonably practicable after such materials are electronically filed with or furnished to the SEC through our website at www.watsco.com. Other reports filed with the SEC under the Securities Exchange Act of 1934, as amended, are also available including the proxy statements and reports filed by officers and directors under Section 16(a) of that Act. These reports may be found on our website by selecting the option entitled "SEC Filings" under the "Investor Relations" section of the website. The reference to our website address does not constitute incorporation by reference of the information contained on our website and should not be considered part of this document.

Corporate Governance

An Employee Code of Business Ethics and Conduct that is applicable to all employees and a Code of Conduct for Executives that is applicable to members of our Board of Directors, executive officers and senior operating and financial personnel and any others designated by the Audit Committee are maintained. These codes require continued observance of high ethical standards such as honesty, integrity and compliance with laws. These codes are publicly available on our website at www.watsco.com under the caption "Codes of Conduct" within the "Governance" section. We intend to post on our website amendments to or waivers from our Code of Conduct for Executives (to the extent applicable to our chief executive officer, principal financial officer or principal accounting officer or directors). There were no material amendments or waivers from our Code of Conduct for Senior Executives in 2009. These materials may also be requested in print by writing to Watsco, Inc., Investor Relations, 2665 South Bayshore Drive, Suite 901, Coconut Grove, FL 33133.

ITEM 1A. RISK FACTORS

Business Risk Factors

Joint Venture with Carrier Corporation

On July 1, 2009, we completed the formation of Carrier Enterprise to distribute Carrier, Bryant and Payne products throughout the U.S. Sunbelt, Latin America and the Caribbean. Carrier Enterprise operates 110 locations in 20 states and Puerto Rico and serves over 19,000 air conditioning and heating contractors. In the formation of the joint venture, Carrier contributed 95 locations in the U.S. Sunbelt and Puerto Rico and the export division located in Miami, Florida and we contributed 15 locations that currently distribute Carrier, Bryant and Payne products. We purchased a 60% controlling interest in Carrier Enterprise for consideration of $172.0 million and a fair value of $181.5 million with options to purchase up to an additional 20% interest from Carrier (10% beginning in July 2012 and an additional 10% in July 2014).

We issued 3,080,469 shares of our common stock on July 1, 2009, having a fair value of $151.1 million to Carrier, which diluted our existing shareholders' ownership interest, and contributed 15 locations that presently sell Carrier-manufactured products as consideration for our 60% controlling interest in Carrier Enterprise. The formation of Carrier Enterprise involves a number of risks, including the following:

- its successful operation and/or integration;
- dependence on one key supplier and

- possible loss of key employees and/or customer relationships.

Continuing Decline in Economic Conditions

The global and U.S. economy has experienced a significant contraction, with an almost unprecedented lack of availability of business and consumer credit. We rely on the capital markets as well as the credit markets to meet our financial commitments and short-term liquidity needs if internal funds are not available from our operations. Long-term disruptions in the capital and credit market, similar to those that have been experienced during 2008 and 2009 could adversely affect our access to liquidity needed for our business. Any long-term disruption could require us to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for our business needs can be arranged. Such measures could include reducing or eliminating dividend payments, deferring capital expenditures and reducing or eliminating discretionary uses of cash.

The decline in economic conditions and lack of availability of business and consumer credit could have an adverse effect on our business. Capital and credit market disruptions could cause broader economic downturns, which may lead to lower demand for our products and increased incidence of customers' inability to pay their accounts. Further, bankruptcies or similar events by customers may cause us to incur bad debt expense at levels higher than historically experienced. Also, our suppliers may potentially be impacted causing disruption or delay of product availability. These events would adversely impact our results of operations, cash flows and financial position. Additionally, if financial institutions that have extended credit commitments to us are adversely affected by the conditions of the capital and credit markets, they may become unable to fund borrowings under their credit commitments to us, which could have an adverse impact on our financial condition and our ability to borrow funds, if needed, for working capital, acquisitions, capital expenditures and other corporate purposes.

Supplier Concentration

We maintain distribution agreements with our key equipment suppliers, either on an exclusive or non-exclusive basis, for terms generally ranging from one to ten years. Certain of the distribution agreements contain provisions that restrict or limit the sale of competitive products in the markets served. Other than the markets where such restrictions and limitations may apply, we may distribute other manufacturers' lines of air conditioning or heating equipment. As a result of the formation of a joint venture with Carrier, our purchases from Carrier and its affiliates comprised 41% of all purchases made during 2009. Significant relationships currently exist with six of the seven; and purchases from these equipment suppliers, including Carrier, comprised 66% of all purchases made in 2009. Given the significant concentration of our supply chain, particularly with Carrier, any significant interruption by the manufacturers or a termination of a distribution agreement could temporarily disrupt the operations of certain subsidiaries. Future results of operations are also materially dependent upon the continued market acceptance of these manufacturers' products and their ability to continue to manufacture products that comply with laws relating to environmental and efficiency standards.

Risks Inherent in Acquisitions

As part of our strategy, we intend to pursue additional acquisitions of complementary businesses. If we complete future acquisitions, we may be required to incur or assume additional debt and/or issue additional shares of our common stock as consideration, which will dilute our existing shareholder's ownership interest and may affect our results of operations. Growth through acquisitions involves a number of risks, including the following:

- the ability to identify and consummate complementary acquisition candidates;
- the successful operation and/or integration of acquired companies in an effective manner;
- diversion of management's attention from other daily functions;
- issuance by us of equity securities that would dilute ownership of our existing shareholders;
- incurrence and/or assumption of significant debt and contingent liabilities; and
- possible loss of key employees and/or customer relationships of the acquired companies.

Competition

We operate in highly competitive environments. We compete with a number of distributors and also with several air conditioning and heating equipment manufacturers that distribute a significant portion of their products through their own distribution organizations in certain markets. Competition within any given geographic market is based upon product availability, customer service, price and quality. Competitive pressures or other factors could cause our products or services to lose market acceptance or result in significant price erosion, all of which would have a material adverse effect on profitability.

Seasonality

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

Dependence on Key Personnel

We are highly dependent on the skills, experience and services of key personnel. The loss of key personnel could have a material adverse effect on our business, operating results or financial condition. Our potential growth and expansion are expected to place increased demands on our management skills and resources. Therefore, our success also depends upon our ability to recruit, hire, train and retain additional skilled and experienced management personnel. Employment and retention of qualified personnel is important due to the competitive nature of our industry.

General Risk Factors

Goodwill and Intangibles

At December 31, 2009, goodwill and intangibles represented approximately 31% of total assets. Goodwill and indefinite lived intangibles are no longer amortized and are subject to impairment testing at least annually using a fair value based approach. The identification and measurement of impairment involves the estimation of the fair value of the reporting unit. Accounting for impairment contains uncertainty because management must use judgment in determining appropriate assumptions to be used in the measurement of fair value. The estimates of fair value of the reporting unit are based on the best information available as of the date of the assessment and incorporate management assumptions about expected future cash flows and contemplate other valuation techniques. Future cash flows can be affected by changes in the industry, a declining economic environment or market conditions.

The recoverability of goodwill and indefinite lived intangibles is evaluated at least annually and when events or changes in circumstances indicate that the carrying amount of goodwill and indefinite lived intangibles may not be recoverable. Although no impairment has been recorded to date, there can be no assurances that future impairments will not occur.

Risks Related to Insurance Coverage

We carry general liability, comprehensive property damage, workers' compensation, health benefits and other insurance coverage that management considers adequate for the protection of its assets and operations. There can be no assurance, however, that the coverage limits of such policies will be adequate to cover losses and expenses for lawsuits brought or which may be brought against us. A loss in excess of insurance coverage could have a material adverse effect on our financial position and/or profitability. Certain self-insurance risks for casualty insurance programs and health benefits are retained and reserves are established based on claims filed and estimates of claims incurred but not yet reported. Assurance cannot be provided that actual claims will not exceed present estimates. Exposure to catastrophic losses has been limited by maintaining excess and aggregate liability coverage and implementing loss control programs.

Control by Existing Shareholder

As of December 31, 2009, Albert H. Nahmad, our Chairman and Chief Executive Officer, and a limited partnership controlled by him, collectively had beneficial ownership of approximately 54% of the combined voting power of the outstanding Common stock and Class B common stock. Based on Mr. Nahmad's stock ownership and the stock ownership of the limited partnership controlled by him, Mr. Nahmad has the voting power to elect all but three members of the nine-person Board of Directors and to control most corporate actions requiring shareholder approval.

Information about Forward-Looking Statements

This Form 10-K 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) business and acquisition strategies, (ii) potential acquisitions, (iii) financing plans and (iv) 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:

- 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; 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, that the information will have the expected consequences or effects on Watsco or its business or operations. A discussion of certain of these risks and uncertainties that could cause actual results to differ materially from those predicted in such forward-looking statements is included in our 2009 Annual Report in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations," which section has been incorporated in the Form 10-K by reference. Forward-looking statements speak only as of the date the statement was made. Watsco assumes 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our main properties include warehousing and distribution facilities, trucks and administrative office space.

Warehousing and Distribution Facilities

At December 31, 2009, we operated 505 warehousing and distribution facilities across 36 states and Puerto Rico having approximately 12.4 million square feet of space in the aggregate of which approximately 11.9 million square feet is leased. The majority of these leases are for terms of three to five years. We believe that our facilities are generally sufficient to meet our present operating needs.

Trucks

At December 31, 2009, we operated 805 ground transport vehicles, including delivery and pick-up trucks, vans and tractors. Of this number, 508 trucks were leased and the rest were owned. We believe that the present size of our truck fleet is adequate to support our operations.

Administrative Facility

Senior management and a functional support staff are located at our corporate headquarters in Coconut Grove, Florida in approximately 6,000 square feet of owned space.

Capital Expenditures

During 2009, our capital expenditures were $5.9 million.

ITEM 3. 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 impact to our financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2009.

PART II

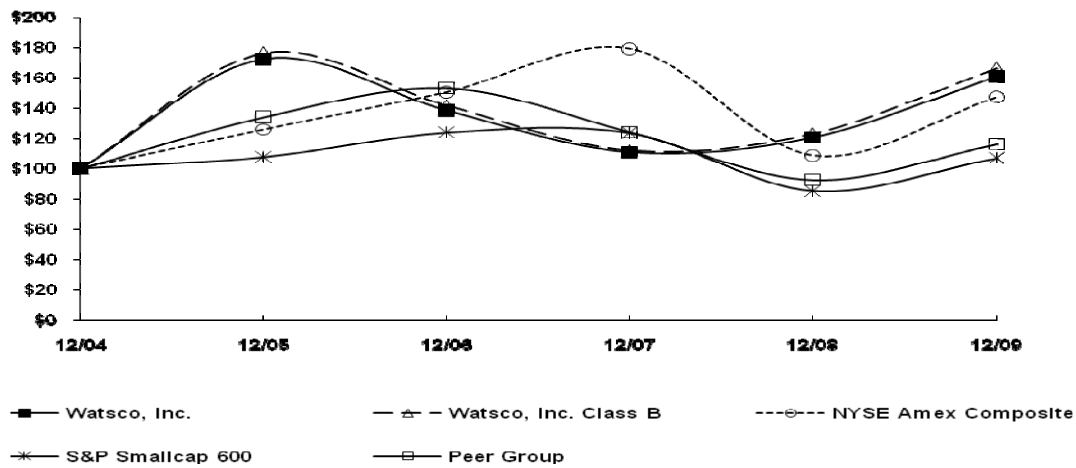
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our 2009 Annual Report contains "Information on Common Stock," which identifies the market on which our common stocks are being traded and contains the high and low sales prices and dividend information for the years ended December 31, 2009 and 2008, and is incorporated herein by reference.

Performance Graph

The following graph compares the cumulative five-year total return attained by shareholders on our Common stock and Class B common stock relative to the cumulative total returns of the AMEX Composite index, the S&P SmallCap 600 index and a customized peer group of companies, which are: Beacon Roofing Supply, Inc., Interline Brands, Inc., Lennox International Inc., Pool Corp and WESCO International, Inc. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common stock, in each index and in the peer group on December 31, 2004 and its relative performance is tracked through December 31, 2009.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Watsco, Inc., the AMEX Composite Index, the S&P SmallCap 600 Index and a Peer Group



	12/04	12/05	12/06	12/07	12/08	12/09
Watsco, Inc.	100.00	172.32	138.18	110.64	120.54	160.67
Watsco, Inc. Class B	100.00	176.40	141.68	111.85	123.05	166.44
AMEX Composite	100.00	125.80	150.40	178.95	108.56	147.27
S&P SmallCap 600	100.00	107.68	123.96	123.59	85.19	106.97
Peer Group	100.00	133.92	153.07	124.15	92.53	116.17

** The stock price performance included in this graph is not necessarily indicative of future stock price performance.*

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Our Board of Directors have authorized the repurchase, at management's discretion, of 7.5 million shares of common stock in the open market or via private transactions. Through December 31, 2009, 6.4 million 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 remaining 1.1 million shares authorized for repurchase are subject to certain restrictions included in our revolving credit agreement. During the quarter ended December 31, 2009, there were no purchases of our equity securities made by us or on our behalf by any "affiliated purchaser" (as such term is defined in Rule 10b-18(a)(3) of the Securities Act of 1933, as amended).

Recent Sales of Unregistered Securities

No sales of unregistered securities were made during the fourth quarter of the year ended December 31, 2009.

Dividends

Cash dividends per share of $1.89, $1.75 and $1.31 for Common stock and Class B common stock were paid in 2009, 2008 and 2007, respectively. Future dividends will be at the sole discretion of the Board of Directors and will depend upon such factors as profitability, financial condition, cash requirements, restrictions existing under our debt agreement, future prospects and other factors deemed relevant by our Board of Directors.

ITEM 6. SELECTED FINANCIAL DATA

Our 2009 Annual Report contains "Selected Consolidated Financial Data" and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our 2009 Annual Report contains "Management's Discussion and Analysis of Financial Condition and Results of Operations" and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our 2009 Annual Report contains "Quantitative and Qualitative Disclosures about Market Risk" and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our 2009 Annual Report contains the 2009 and 2008 Consolidated Balance Sheets and other consolidated financial statements for the years ended December 31, 2009, 2008 and 2007, together with the reports thereon (for the applicable periods covered by their reports) of KPMG LLP dated February 26, 2010, and Grant Thornton LLP dated February 27, 2009, and are incorporated herein by reference.

Our 2009 Annual Report contains "Selected Quarterly Financial Data" for 2009 and 2008 and is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no disagreements with accountants on accounting or financial disclosures during the last three fiscal years. On June 23, 2009, the Board of Directors of the Company and its Audit Committee dismissed Grant Thornton LLP as the Company's independent registered public accounting firm and engaged KPMG LLP to serve as the Company's new independent registered public accounting firm. For more information with respect to this matter, see our Current Report on Form 8-K dated June 22, 2009.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. This evaluation was performed under the supervision and with the participation of management, including our Chief Executive Officer, Senior Vice President and Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer, Senior Vice President and Chief Financial Officer concluded that our disclosure controls and procedures are effective. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to management, including our Chief Executive Officer, Senior Vice President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Management's Report on Internal Control over Financial Reporting

Our 2009 Annual Report contains "Management's Report on Internal Control over Financial Reporting" and the report thereon of KPMG LLP dated February 26, 2010, and is incorporated herein by reference.

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 December 31, 2009, 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 Securities and Exchange Commission, we have not yet assessed the internal control over financial reporting of the 95 locations added by Carrier Enterprise on July 1, 2009, which represents approximately 43% of our total consolidated assets at December 31, 2009 and approximately 29% of revenues for the year ended December 31, 2009. From the acquisition date to December 31, 2009, the processes and systems of Carrier Enterprise were discrete and did not impact internal controls over financial reporting for our other consolidated subsidiaries.

ITEM 9B. OTHER INFORMATION

None.

PART III

This part of Form 10-K, which includes items 10 through 14, is omitted because we will file definitive proxy material pursuant to Regulation 14A not more than 120 days after the close of our year-end, which proxy material will include the information required by Items 10 through 14 and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements. Our consolidated financial statements are incorporated by reference from our 2009 Annual Report.

(2) Financial Statement Schedules. The schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

(3) Exhibits. The following list of exhibits includes exhibits submitted with this Form 10-K as filed with the SEC and those incorporated by reference to other filings.

[…]

[…]

[…]

13 2009 Annual Report to Shareholders (with the exception of the information incorporated by reference into Items 1, 5, 6, 7 and 8 of this Form 10-K, the 2009 Annual Report to Shareholders is provided solely for the information of the SEC and is not deemed "filed" as part of this Form 10-K). #

21 Subsidiaries of the Registrant. #

23.1 Consent of Independent Registered Public Accounting Firm KPMG LLP. #

23.2 Consent of Independent Registered Public Accounting Firm Grant Thornton LLP. #

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. #

31.2 Certification of Senior Vice President pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. #

31.3 Certification of Chief Financial Officer 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 Section 906 of the Sarbanes-Oxley Act of 2002. #

Note to Exhibits:

Submitted electronically herewith
+ Compensation plan or arrangement
* Management contract

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

February 26, 2010 By: /s/ Albert H. Nahmad
Albert H. Nahmad, President

February 26, 2010 By: /s/ Ana M. Menendez
Ana M. Menendez, Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ Albert H. Nahmad **Albert H. Nahmad**	Chairman of the Board and Chief Executive Officer (principal executive officer)	February 26, 2010
/s/ Barry S. Logan **Barry S. Logan**	Senior Vice President	February 26, 2010
/s/ Ana M. Menendez **Ana M. Menendez**	Chief Financial Officer (principal accounting officer and principal financial officer)	February 26, 2010
/s/ Cesar L. Alvarez **Cesar L. Alvarez**	Director	February 26, 2010
/s/ Robert L. Berner III **Robert L. Berner III**	Director	February 26, 2010
/s/ Denise Dickins **Denise Dickins**	Director	February 26, 2010
/s/ Paul F. Manley **Paul F. Manley**	Director	February 26, 2010
/s/ Bob L. Moss **Bob L. Moss**	Director	February 26, 2010
/s/ George P. Sape **George P. Sape**	Director	February 26, 2010
/s/ Gary L. Tapella **Gary L. Tapella**	Director	February 26, 2010

<u>**EXHIBIT I – ANNUAL REPORT ON FORM 10-K**</u>

Exhibit Index

Exhibit Number	Description
	[…]
13	2009 Annual Report to Shareholders (with the exception of the information incorporated by reference into Items 1, 5, 6, 7 and 8 of this Form 10-K, the 2009 Annual Report to Shareholders is provided solely for the information of the SEC and is not deemed "filed" as part of this Form 10-K).
21	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm □ KPMG LLP.
23.2	Consent of Independent Registered Public Accounting Firm □ Grant Thornton LLP.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Senior Vice President pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification of Chief Financial Officer 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 Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT 13

WATSCO, INC. AND SUBSIDIARIES
SELECTED CONSOLIDATED FINANCIAL DATA

Years Ended December 31, (In thousands, except per share data)	2009 *(1)*	2008	2007 *(2)(4)*	2006 *(3)(4)*	2005 *(4)*
OPERATING DATA					
Revenues	$ 2,001,815	$ 1,700,237	$ 1,758,022	$ 1,771,214	$ 1,658,249
Gross profit	480,832	441,994	446,985	457,270	418,479
Operating income	81,060	98,608	111,154	135,394	117,283
Net income from continuing operations	51,573	60,369	67,489	82,233	70,528
(Loss) income from discontinued operations, net of income taxes	—	—	(1,912)	131	(509)
Net income	51,573	60,369	65,577	82,364	70,019
Less: net income attributable to the noncontrolling interest	(8,259)	—	—	—	—
Net income attributable to Watsco, Inc.	$ 43,314	$ 60,369	$ 65,577	$ 82,364	$ 70,019
SHARE AND PER SHARE DATA					
Diluted earnings per share for Common and Class B common stock:					
Net income from continuing operations attributable to Watsco, Inc. shareholders	$ 1.40	$ 2.09	$ 2.34	$ 2.85	$ 2.47
Net (loss) income from discontinued operations attributable to Watsco, Inc. shareholders	—	—	(0.07)	0.01	(0.02)
Net income attributable to Watsco, Inc. shareholders	$ 1.40	$ 2.09	$ 2.27	$ 2.86	$ 2.45
Cash dividends declared and paid per share:					
Common stock	$ 1.89	$ 1.75	$ 1.31	$ 0.95	$ 0.62
Class B common stock	$ 1.89	$ 1.75	$ 1.31	$ 0.95	$ 0.62
Weighted-average Common and Class B common shares and equivalent shares used to calculate diluted earnings per share	28,521	27,022	27,139	27,159	27,195
Common stock outstanding	32,139	28,326	27,969	27,833	27,463
BALANCE SHEET DATA					
Total assets	$ 1,160,613	$ 716,061	$ 750,113	$ 710,368	$ 677,884
Long-term obligations	13,429	20,783	55,042	30,118	40,189
Shareholders' equity	894,808	570,660	549,957	516,386	450,650

(1) Effective January 1, 2009, we adopted the provisions of accounting guidance stating that non-vested share-based payment awards that contain non-forfeitable rights to dividends are considered participating securities and should be included in the computation of earnings per share pursuant to the two-class method for all periods presented. We also adopted the provisions of revised accounting guidance for recognizing and measuring assets acquired and liabilities assumed in a business combination effective January 1, 2009.

(2) Effective January 1, 2007, we adopted the provisions of accounting guidance related to uncertainty in income taxes.

(3) Effective January 1, 2006, the provisions of accounting guidance on share-based payments were adopted using the modified prospective transition method.

(4) On July 19, 2007, we divested of our non-core staffing unit. All amounts related to this operation are restated as discontinued operations.

WATSCO, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with the information contained in Item 1A, "Risk Factors" and the consolidated financial statements included under Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

Company Overview

Watsco, Inc. and its subsidiaries (collectively, "Watsco," which may be referred to as *we, us* or *our*) was incorporated 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. On July 1, 2009, we completed the formation of a joint venture with Carrier Corporation ("Carrier"), a unit of United Technologies Corporation, to distribute Carrier, Bryant and Payne products throughout the U.S. Sunbelt, Latin America and the Caribbean. In the formation of the joint venture, Carrier contributed 95 locations in the U.S. Sunbelt and Puerto Rico and the export division located in Miami, Florida and we contributed 15 locations that currently distribute Carrier, Bryant and Payne products. We purchased a 60% controlling interest in the joint venture for consideration of $172.0 million and a fair value of $181.5 million with options to purchase up to an additional 20% interest from Carrier (10% beginning in July 2012 and an additional 10% in July 2014). We issued 3,080,469 shares of Common and Class B common stock for consideration of $147.0 million and a fair value of $151.1 million to Carrier and contributed 15 locations that presently sell Carrier-manufactured products for consideration of $25.0 million as total consideration for our 60% controlling interest in the joint venture. Carrier Enterprise, LLC ("Carrier Enterprise"), operates 110 locations in 20 states and Puerto Rico and serves over 19,000 air conditioning and heating contractors. Including Carrier Enterprise, we operate from 505 locations in 36 states and serve over 50,000 customers.

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 tend to be variable in nature 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 the severity or mildness of weather patterns during summer or winter selling seasons. Demand related to the residential central air conditioning replacement market is highest in the second and third quarters with demand for heating equipment usually highest in the fourth quarter. Demand related to the new construction sectors throughout most of the markets is fairly even during the year except for dependence on housing completions and related weather and economic conditions.

Items Affecting Comparability between Periods

Refer to Note 1 to the consolidated financial statements for a discussion of the impact of changes in accounting standards.

Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations is based upon the consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these consolidated 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 consolidated 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 significant accounting policies are discussed in Note 1 to the consolidated financial statements. Management believes that the following accounting policies include a higher degree of judgment and/or complexity and, thus, are considered to be critical accounting policies. Management has discussed the development and selection of critical accounting policies with the Audit Committee of the Board of Directors and the Audit Committee has reviewed the disclosures relating to them.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of customers to make required payments. Accounting for doubtful accounts contains uncertainty because management must use judgment to assess the collectability of these accounts. When preparing these estimates, management considers a number of factors, including the aging of a customer's account, past transactions with customers, creditworthiness of specific customers, historical trends and other information. Our business is seasonal and our customers' businesses are also seasonal. Sales are lowest during the first and fourth quarters and past due accounts receivable balances as a percentage of total trade receivables generally increase during these quarters. We review our accounts receivable reserve policy periodically, reflecting current risks, trends and changes in industry conditions.

The allowance for doubtful accounts was $10.9 million and $3.9 million at December 31, 2009 and 2008, respectively, an increase of $7.0 million. Accounts receivable balances greater than 90 days past due as a percent of accounts receivable at December 31, 2009 increased to 5.8% compared to 3.4% at December 31, 2008. These increases are attributable to the 95 Carrier Enterprise locations added in July 2009.

Although we believe the allowance for doubtful accounts is sufficient, any continuing declining economic conditions could lead to further deterioration in the financial condition of customers, resulting in an impairment of their ability to make payments and additional allowances may be required that could materially impact our consolidated results of operations. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers comprising the customer base and their dispersion across many different geographical regions. We also have access to a credit insurance program which is used as an additional means to mitigate credit risk.

Inventory Valuation

Inventories consist of air conditioning, heating and refrigeration equipment and related parts and supplies and are valued at the lower of cost or market using a weighted-average cost basis and the first-in, first-out method. As part of the valuation process, inventory reserves are established to state excess, slow-moving and damaged inventories at their estimated net realizable value. The valuation process for excess, slow-moving and damaged inventory contains uncertainty because management must use judgment to estimate when the inventory will be sold and the quantities and prices at which the inventory will be sold in the normal course of business. Inventory reserve policies are periodically reviewed, reflecting current risks, trends and changes in industry conditions. A reserve for estimated inventory shrinkage is also maintained and reflects the results of cycle count programs and physical inventories. When preparing these estimates, management considers historical results, inventory levels and current operating trends.

Valuation of Goodwill and Indefinite Lived Intangible Assets

The recoverability of goodwill and indefinite lived intangibles is evaluated at least annually and when events or changes in circumstances indicate that the carrying amount of goodwill and indefinite lived intangibles may not be recoverable. The identification and measurement of goodwill impairment involves the estimation of the fair value of our reporting unit and contains uncertainty because management must use judgment in determining appropriate assumptions to be used in the measurement of fair value. Indefinite lived intangibles not subject to amortization are assessed for impairment by comparing the fair value of the intangible asset to its carrying amount to determine if a write-down to fair value is required. The estimates of fair value of the reporting unit and indefinite lived intangibles are based on the best information available as of the date of the assessment and incorporate management assumptions about expected future cash flows and contemplate other valuation techniques. Future cash flows can be affected by changes in the industry, a declining economic environment or market conditions.

On January 1, 2010, the annual impairment tests were performed and it was determined there was no impairment. No factors have developed since the last impairment tests that would indicate that the carrying value of goodwill and indefinite lived intangibles may not be recoverable. The carrying amount of goodwill and intangibles at December 31, 2009 was $361.8 million. Although no impairment has been recorded to date, there can be no assurances that future impairments will not occur. An adjustment to the carrying value of goodwill and intangibles could materially impact the consolidated results of operations.

Self-Insurance Reserves

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 amount of $7.1 million and $3.9 million at December 31, 2009 and 2008, respectively, were established related to such insurance programs. The increase in the self-insurance reserves reflects changing our health benefit plan from fully insured to a self-insured plan effective January 1, 2009 and the addition of Carrier Enterprise on July 1, 2009.

Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial reporting basis and the tax basis of assets and liabilities at enacted tax rates expected to be in effect when such amounts are recovered or settled. The use of estimates by management is required to determine income tax expense, deferred tax assets and any related valuation allowance and deferred tax liabilities. The valuation allowance is based on estimates of future taxable income by jurisdiction in which the deferred tax assets will be recoverable. These estimates can be affected by a number of factors, including possible tax audits or general economic conditions or competitive pressures that could affect future taxable income. Although management believes that the estimates are reasonable, the deferred tax asset and any related valuation allowance will need to be adjusted if management's estimates of future taxable income differ from actual taxable income. An adjustment to the deferred tax asset and any related valuation allowance could materially impact the consolidated results of operations. At December 31, 2009 and 2008, there was no valuation allowance recorded.

Discontinued Operations

During June 2007, our Board of Directors approved and we executed an agreement to sell the stock of our non-core staffing unit, Dunhill Staffing Systems, Inc. ("Dunhill"). The amounts related to this operation are presented as discontinued operations in our consolidated statement of income and our consolidated statement of cash flows for 2007. See Note 13 to the consolidated financial statements for further information.

Results of Operations

The following table summarizes information derived from the consolidated statements of income expressed as a percentage of revenues for the years ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
Revenues	100.0%	100.0%	100.0%
Cost of sales	76.0	74.0	74.6
Gross profit	24.0	26.0	25.4
Selling, general and administrative expenses	20.0	20.2	19.1
Operating income	4.0	5.8	6.3
Interest expense, net	0.1	0.1	0.2
Income from continuing operations before income taxes	3.9	5.7	6.1
Income taxes	1.3	2.1	2.3
Net income from continuing operations	2.6	3.6	3.8
Loss from discontinued operations, net of income taxes	-	-	0.1
Net income	2.6	3.6	3.7
Less: net income attributable to the noncontrolling interest	0.4	-	-
Net income attributable to Watsco, Inc.	2.2%	3.6%	3.7%

The following narratives include the results of operations for businesses acquired during 2009 and 2007. The operating results of acquisitions have been included in the consolidated results beginning on their respective dates of acquisition. The pro forma effect of these acquisitions, excluding Carrier Enterprise, was not deemed significant on either an individual or an aggregate basis in the related acquisition year. There were no businesses acquired during 2008. 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 prior twelve months unless they are within close geographical proximity to existing locations. Additionally, the following narratives include the results of operations of our continuing operations only and exclude the results of our discontinued operation, Dunhill.

2009 Compared to 2008

Revenues

Revenues in 2009 increased $301.6 million, or 18%, to $2,002 million, including a $595.6 million contribution from locations acquired and opened during the prior 12 months, offset by $14.4 million from closed locations. On a same-store basis, revenues declined $279.6 million, or 17%, over 2008 and reflected a decline of 11% in sales of HVAC equipment, a 24% decline in sales of other HVAC products and a 16% decline in sales of refrigeration products. Revenues were impacted by lower demand experienced during the current economic conditions and lower pricing on certain commodity products that are sensitive to changes in commodity prices (copper tubing, galvanized sheet metal and refrigerant). These commodity products accounted for approximately $90.0 million of the same-store revenue decline and in aggregate represented 12% of revenues on a same-store basis.

Gross Profit

Gross profit in 2009 increased $38.8 million, or 9%, to $480.8 million. Gross profit margin decreased 200 basis-points to 24.0% in 2009 from 26.0% in 2008, reflecting lower gross margins achieved by Carrier Enterprise. On a same-store basis, gross profit margin declined 60 basis-points to 25.4% versus 26.0% in 2008. The decline of same-store gross profit margin is primarily due to lower margins on certain commodity products that are sensitive to changes in commodity prices, a shift in sales mix toward HVAC equipment, which generates a lower gross profit margin versus non-equipment products and generally more competitive pricing conditions.

Selling, General and Administrative Expenses

Selling, general and administrative expenses in 2009 increased $56.4 million, or 16%, to $399.8 million. Selling, general and administrative expenses as a percent of revenues decreased to 20.0% in 2009 from 20.2% in 2008. Selling, general and administrative expenses include $4.8 million of transaction costs primarily associated with the closing and transition of Carrier Enterprise in 2009. On a same-store basis, selling, general and administrative expenses were down 13% compared to 2008, primarily due to ongoing cost savings initiatives implemented in early 2008.

Operating Income

Operating income in 2009 decreased $17.5 million, or 18%, to $81.1 million. Operating margin decreased 180 basis-points to 4.0% in 2009 from 5.8% in 2008. On a same-store basis, operating margin declined 150 basis-points to 4.4% versus 5.9% in 2008.

Interest Expense, Net

Net interest expense in 2009 increased $0.7 million, or 35%, primarily as a result of the additional amortization of bank fees (included in interest expense, net) related to the amendment of our existing revolving credit agreement required to consummate the joint venture and the establishment of the Carrier Enterprise revolving credit agreement, partially offset by a 42% decrease in average outstanding borrowings as compared to 2008.

Income Taxes

Income taxes of $26.8 million consist of the income taxes attributable to Watsco's wholly-owned operations and 60% of income taxes attributable to Carrier Enterprise, which is taxed as a partnership for income tax purposes. The effective income tax rate attributable to Watsco, Inc. was 37.8% in 2009 versus 37.5% in 2008. The increase is primarily due to a higher state effective tax rate associated with Carrier Enterprise. Our overall effective income tax rate was 34.2% in 2009 versus 37.5% in 2008.

Net Income Attributable to Watsco, Inc.

Net income attributable to Watsco decreased $17.1 million, or 28%, to $43.3 million. The decrease was primarily driven by the lower gross profit margin and the higher levels of selling, general and administrative expenses discussed above.

2008 Compared to 2007

Revenues

Revenues in 2008 decreased $57.8 million, or 3%, to $1,700 million, including a $133.4 million contribution from locations acquired and opened during the prior 12 months, offset by $13.6 million from closed locations. On a same-store basis, revenues declined $177.6 million, or 10%, over 2007 and reflected a decline of 10% in sales of HVAC equipment, an 11% decline in sales of other HVAC products and a 5% decline in sales of refrigeration products. Revenues in 2008 were impacted by significantly lower demand in the new construction market.

Gross Profit

Gross profit in 2008 decreased $5.0 million, or 1%, to $442.0 million. Gross profit margin improved 60 basis-points to 26.0% in 2008 from 25.4% in 2007 and improved 70 basis-points on a same-store basis. The expansion of gross profit margin is primarily due to increased sales of high-efficiency air conditioning systems, an improved sales mix to the repair and replacement market and execution on gross profit margin enhancement initiatives.

Selling, General and Administrative Expenses

Selling, general and administrative expenses in 2008 increased $7.6 million, or 2%, to $343.4 million. Selling, general and administrative expenses as a percent of revenues increased to 20.2% in 2008 from 19.1% in 2007 primarily as a result of lower same-store revenues and the relative inefficiency of fixed operating costs following a decline in revenues. On a same-store basis, including locations closed during 2008, selling, general and administrative expenses decreased 6% compared to 2007 primarily due to decreases in selling expenses related to our decreased revenues, other cost reductions and efficiency initiatives including facility rationalization and headcount reductions and lower incentive-based compensation as a result of our decreased revenues.

Operating Income

Operating income in 2008 decreased $12.5 million, or 11%, to $98.6 million. Operating margin decreased 50 basis-points to 5.8% in 2008 from 6.3% in 2007. On a same-store basis, operating margin declined 40 basis-points to 6.0% versus 6.4% in 2007.

Interest Expense, Net

Net interest expense in 2008 decreased $1.2 million, or 36%, compared to 2007, primarily due to a 24% decrease in average outstanding borrowings and a lower effective interest rate.

Income Taxes

The effective tax rate was 37.5% in 2008 and 2007.

Net Income attributable to Watsco, Inc.

Net income attributable to Watsco, Inc. for 2008 decreased $5.2 million, or 8%, to $60.4 million. The decrease was primarily a result of lower revenues.

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 peak 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 available bank lines of credit;
- the ability to attract long-term capital with satisfactory terms;
- acquisitions;
- dividend payments;
- the timing and extent of common stock repurchases; and
- capital expenditures.

We rely on cash flows from operations and our lines of credit to fund seasonal working capital needs, financial commitments and short-term liquidity needs, including funds necessary for business acquisitions. Disruptions in the capital and credit markets, such as those that have been experienced during 2008 and 2009 could adversely affect our ability to draw on our lines of credit. Our access to funds under the lines of credit is dependent on the ability of the banks to meet their funding commitments. Disruptions in capital and credit markets have also affected the determination of interest rates for borrowers, particularly rates based on LIBOR, as are our lines of credit. Continued disruptions in these markets and their effect on interest rates could result in increased borrowing costs under our lines of credit. We believe that, at present, cash flows from operations combined with those available under our lines of credit are sufficient to satisfy our current liquidity needs, including our anticipated dividend payments and capital expenditures.

Cash Flows

The following table summarizes our cash flow activity for 2009 and 2008:

	2009	2008	Change
Operating activities	**$ 88.3**	$ 113.5	$ (25.2)
Investing activities	**$ (15.5)**	$ (3.7)	$ (11.8)
Financing activities	**$ (56.1)**	$ (77.8)	$ 21.7

Operating Activities

Cash flows provided by operating activities provides us with a significant source of liquidity. The decrease in net cash provided by operating activities was principally attributable to lower reductions in inventories and lower net income in 2009 compared to 2008.

Investing Activities

The increase in net cash used in investing activities is primarily due to cash used to acquire businesses in 2009 for $9.8 million and an increase in capital expenditures of $1.9 million.

The final purchase price of Carrier Enterprise was subject to an adjustment of $7.2 million, of which $1.4 million was payable to Carrier at December 31, 2009.

In August 2009, a capital contribution in the amount of $80.0 million was made to Carrier Enterprise pursuant to the Purchase and Contribution Agreement. Our share of the contribution totaling $48.0 million was made as an additional capital contribution to Carrier Enterprise in cash. Carrier's share of the contribution totaling $32.0 million consisted of inventory.

In August 2009, one of our subsidiaries acquired certain assets and assumed certain liabilities of a wholesale distributor of air conditioning and heating products operating from six locations in Utah and serving over 500 customers. The purchase price of the acquisition included a cash payment of $4.0 million.

The results of operations of these acquired locations have been included in the consolidated financial statements from their respective dates of acquisition. The pro forma effect of the August 2009 acquisition was not deemed significant to the consolidated financial statements.

Financing Activities

The decrease in net cash used in financing activities is primarily attributable to $26.8 million lower net debt repayments under our revolving credit agreement, a $4.8 million increase in excess tax benefits resulting from share-based compensation and $4.4 million higher net proceeds from issuances of common stock in 2009, partially offset by an increase of $7.7 million in dividends paid, $6.7 million revolving credit agreements fees paid and $4.8 million distribution made to the noncontrolling interest in 2009.

Working capital increased to $531.4 million at December 31, 2009 from $348.9 million at December 31, 2008 primarily due to the 95 new locations added by Carrier Enterprise in July 2009, which added $236.3 million of working capital. Excluding these new locations, working capital was $295.1 million.

Revolving Credit Agreements

We maintain a bank-syndicated, unsecured revolving credit agreement that provides for borrowings of up to $300.0 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 facility matures in August 2012. At December 31, 2009 and 2008, $12.8 million and $20.0 million were outstanding under this revolving credit agreement, respectively.

On July 1, 2009, we amended our $300.0 million credit agreement to provide for the consummation of Carrier Enterprise. We paid an amendment fee of $5.5 million, which is being amortized ratably through the maturity of the facility in August 2012. All other significant terms and conditions remained the same, including capacity, pricing and covenant structure.

The revolving credit agreement contains customary affirmative and negative covenants including financial covenants with respect to consolidated leverage and interest coverage ratios and limits capital expenditures, dividends and share repurchases in addition to other restrictions. We believe we were in compliance with all covenants and financial ratios at December 31, 2009.

On July 1, 2009, Carrier Enterprise entered into a separate secured three-year $75.0 million revolving credit agreement with three lenders. Borrowings under the credit facility will be used by Carrier Enterprise for general corporate purposes, including working capital and permitted acquisitions. The credit facility is secured by substantially all tangible and intangible assets of Carrier Enterprise. Carrier Enterprise paid $1.2 million of fees in connection with the credit agreement, which is being amortized ratably through the maturity of the facility in July 2012. As of December 31, 2009, $0.01 million was outstanding under this credit facility.

The revolving credit agreement contains customary affirmative and negative covenants and warranties, including compliance with a monthly borrowing base certificate with advance rates on accounts receivable and inventory, two financial covenants with respect to Carrier Enterprise's leverage and interest coverage ratios and limits the level of capital expenditures in addition to other restrictions. We believe Carrier Enterprise was in compliance with all covenants and financial ratios at December 31, 2009.

Contractual Obligations and Off-Balance Sheet Arrangements

As of December 31, 2009, our significant contractual obligations were as follows (in millions):

	Payments due by Period						
Contractual Obligations	**2010**	**2011**	**2012**	**2013**	**2014**	**Thereafter**	**Total**
Non-cancelable operating lease obligations	$ 62.9	$ 47.9	$ 33.1	$ 24.5	$ 17.1	$ 27.2	$ 212.7
Minimum royalty payments	1.0	1.0	—	—	—	—	2.0
Other debt	0.2	0.1	0.1	—	—	0.4	0.8
Total Contractual Obligations	$ 64.1	$ 49.0	$ 33.2	$ 24.5	$ 17.1	$ 27.6	$ 215.5

Commercial obligations outstanding at December 31, 2009 under the revolving credit agreements consist of borrowings totaling $10.0 million and standby letters of credit totaling $3.8 million. Borrowings under the revolving credit agreements at December 31, 2009 had revolving maturities of 30 days and letters of credit had varying terms expiring through August 2010.

Standby letters of credit are primarily used as collateral under self-insurance programs and are not expected to result in any material losses or obligation as the obligations under the programs will be met in the ordinary course of business. Accordingly, the estimated fair value of these instruments is zero at December 31, 2009. See Note 10 to the consolidated financial statements for further information.

Company Share Repurchase Program

In September 1999, our Board of Directors authorized the repurchase, at management's discretion, of 7.5 million 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. Repurchases totaled 105,600 shares at a cost of $4.8 million in 2008 and 231,100 shares at a cost of $9.4 million in 2007. No shares were repurchased in 2009. In aggregate, 6.4 million shares of Common stock and Class B common stock have been repurchased at a cost of $114.4 million since the inception of the program. The remaining 1.1 million shares authorized for repurchase are subject to certain restrictions included in our revolving credit agreement.

Common Stock Dividends

Cash dividends per share of $1.89, $1.75 and $1.31 for Common stock and Class B common stock were paid in 2009, 2008 and 2007, respectively. In February 2010, the Board of Directors approved an increase to the quarterly cash dividend rate to $0.52 per share from $0.48 per share of Common and Class B common stock beginning with the next regular scheduled dividend declaration in April 2010. 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 profitability, financial condition, cash requirements, and restrictions under our revolving credit agreement, future prospects and other factors deemed relevant by our Board of Directors.

Capital Resources

We believe we have adequate availability of capital from operations and our current credit facilities to fund working capital requirements and support the development of our short-term and long-term operating strategies. As of December 31, 2009, we had cash and cash equivalents on hand and additional borrowing capacity (subject to certain restrictions) under our revolving credit agreements to fund present operations and anticipated growth, including expansion in our current and targeted market areas. Potential acquisitions are continually evaluated and discussions are conducted with a number of acquisition candidates. Should suitable acquisition opportunities or working capital needs arise that would require additional financing, we believe our financial position and earnings history provide a sufficient base for obtaining additional financing resources at competitive rates and terms or gives us the ability to raise funds through the issuance of equity securities.

Quantitative and Qualitative Disclosures about Market Risk

The primary market risk exposure for Watsco is interest rate risk. The objective in managing the exposure to interest rate changes is to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve this objective, interest rate swaps are used to manage net exposure to interest rate changes to our borrowings. These swaps are entered into with financial institutions with investment grade credit ratings, thereby minimizing the risk of credit losses. All items described are non-trading. See Notes 1 and 10 to the consolidated financial statements for further information.

Interest rate swap agreements reduce the exposure to market risks from changing interest rates under our revolving credit agreement. Under the swap agreements, we agree to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to a notional principal amount. Any differences paid or received on interest rate swap agreements are recognized as adjustments to interest expense over the life of each swap, thereby adjusting the effective interest rate on the underlying obligation. Financial instruments are not held for trading purposes. Derivatives used for hedging purposes must be designated as, and effective as, a hedge of the identified risk exposure at the inception of the contract. Accordingly, changes in the fair value of the derivative contract must be highly correlated with changes in the fair value of the underlying hedged item at inception of the hedge and over the life of the hedge contract.

At December 31, 2009, one interest rate swap agreement was in effect with a notional amount of $10.0 million, to manage the net exposure to interest rate changes related to $10.0 million of borrowings under our revolving credit agreement. The swap agreement matures in October 2011 and exchanges the variable rate of 30-day LIBOR to a fixed interest rate of 5.07%. The interest rate swap was effective as a cash flow hedge and no charge to earnings was required in 2009, 2008 and 2007.

We were party to an interest rate swap agreement with a notional amount of $10.0 million, which matured on October 31, 2009, that was designated as a cash flow hedge and effectively exchanged the variable rate of 30-day LIBOR to a fixed interest rate of 5.04%. During 2009, 2008 and 2007, the hedging relationship was determined to be highly effective in achieving offsetting changes in cash flows.

We were party to an interest rate swap agreement with a notional amount of $30.0 million, which matured on October 9, 2007, that was designated as a cash flow hedge and effectively exchanged the variable rate of 90-day LIBOR to a fixed interest rate of 6.25%. During 2007, the hedging relationship was determined to be highly effective in achieving offsetting changes in cash flows.

The negative fair value of the derivative financial instruments was $0.7 million and $1.3 million at December 31, 2009 and 2008, respectively, and is included, net of accrued interest, in deferred income taxes and other liabilities in the consolidated balance sheets.

At December 31, 2009 and 2008, our exposure to interest rate changes was limited to variable rate lease payments which are indexed to one month LIBOR. To assess our exposure to changes in interest rates, we performed a sensitivity analysis to determine the impact to earnings associated with an immediate 100 basis-point fluctuation from one month LIBOR. Based on the results of this simulation, as of December 31, 2009 and 2008, net income would decrease or increase by approximately $.1 million on an annual basis if there were an immediate 100 basis-point increase or decrease, respectively, in one month LIBOR. Disruptions in the capital and credit markets have also affected the determination of interest rates for LIBOR-based borrowers. Disruptions in these markets and their affect on interest rates could result in increased borrowings than our sensitivity analysis determined. This information constitutes a “forward-looking statement” and actual results may differ significantly based on actual borrowings and interest rates.

Recent Accounting Pronouncements

Refer to Note 1 to the consolidated financial statements for a discussion of recent accounting pronouncements.

Information about Forward-Looking Statements

This Annual 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, (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:

- 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; 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, that the information will have the expected consequences to or effects on our business or operations. A discussion of certain of these risks and uncertainties that could cause actual results to differ materially from those predicted in such forward-looking statements is included in our 2009 Annual Report in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations," which section has been incorporated in the Form 10-K by reference. 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.

WATSCO, INC. AND SUBSIDIARIES
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of our published consolidated financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

On July 1, 2009, we completed the formation of a joint venture, Carrier Enterprise, LLC ("Carrier Enterprise"). As permitted by Securities and Exchange Commission guidance, the scope of our Section 404 evaluation for the fiscal year ended December 31, 2009 does not include the internal controls over financial reporting of the 95 locations added by Carrier Enterprise. Carrier Enterprise is included in our consolidated financial statements from the date the joint venture was formed and represented approximately 43% of total consolidated assets at December 31, 2009 and approximately 29% of revenues for the year ended December 31, 2009. From the acquisition date to December 31, 2009, the processes and systems of Carrier Enterprise were discrete and did not significantly impact internal controls over financial reporting for our other consolidated subsidiaries.

Under the supervision and with the participation of our management, including our Chief Executive Officer, Senior Vice President and Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2009. The assessment was based on criteria established in the framework *Internal Control — Integrated Framework*, issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission. Based on this assessment under the COSO framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2009. The effectiveness of our internal control over financial reporting as of December 31, 2009 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report that is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Watsco, Inc.:

We have audited Watsco, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Watsco, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting, appearing under Item 15. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company acquired Carrier Enterprise, LLC ("Carrier Enterprise") during 2009, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2009, Carrier Enterprise's internal control over financial reporting, which represented approximately 43% of the Company's total consolidated assets as of December 31, 2009 and approximately 29% of consolidated revenues for the year ended December 31, 2009, included in the consolidated financial statements of Watsco, Inc. and subsidiaries as of and for the year ended December 31, 2009. Our audit of internal control over financial reporting of Watsco, Inc. and subsidiaries also excluded an evaluation of the internal control over financial reporting of Carrier Enterprise.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Watsco, Inc. and subsidiaries as of December 31, 2009, and the related consolidated statements of income, cash flows, and shareholders' equity for the year ended December 31, 2009, and our report dated February 26, 2010 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Miami, Florida
February 26, 2010
Certified Public Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Watsco, Inc.:

We have audited the accompanying consolidated balance sheet of Watsco, Inc. and subsidiaries (the "Company") as of December 31, 2009, and the related consolidated statements of income, cash flows, and shareholders' equity for the year ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Watsco, Inc. and subsidiaries as of December 31, 2009, and the results of their operations and their cash flows for the year ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2009 the Company changed its accounting and reporting for business combinations, noncontrolling interests, and earnings per share.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Watsco, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2010 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Miami, Florida
February 26, 2010
Certified Public Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
Watsco, Inc.

We have audited the accompanying consolidated balance sheet of Watsco, Inc. (a Florida Corporation) and subsidiaries (the "Company") as of December 31, 2008, and the related consolidated statements of income, cash flows, and shareholders' equity for each of the two years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Watsco, Inc. and subsidiaries as of December 31, 2008, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Miami, Florida
February 27, 2009 (except for earnings per share amounts as discussed in Note 1 - Accounting Changes - Earnings per Share, as to which the date is February 26, 2010)

WATSCO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	Years Ended December 31, 2009	2008	2007
Revenues	$ 2,001,815	$ 1,700,237	$ 1,758,022
Cost of sales	1,520,983	1,258,243	1,311,037
Gross profit	480,832	441,994	446,985
Selling, general and administrative expenses	399,772	343,386	335,831
Operating income	81,060	98,608	111,154
Interest expense, net	2,731	2,018	3,172
Income from continuing operations before income taxes	78,329	96,590	107,982
Income taxes	26,756	36,221	40,493
Net income from continuing operations	51,573	60,369	67,489
Loss from discontinued operations, net of income taxes (Note 13)	—	—	(1,912)
Net income	51,573	60,369	65,577
Less: net income attributable to the noncontrolling interest	(8,259)	—	—
Net income attributable to Watsco, Inc.	$ 43,314	$ 60,369	$ 65,577
Basic earnings per share for Common and Class B common stock:			
Net income from continuing operations attributable to Watsco, Inc. shareholders	$ 1.40	$ 2.14	$ 2.41
Net loss from discontinued operations attributable to Watsco, Inc. shareholders	—	—	(0.07)
Net income attributable to Watsco, Inc. shareholders	$ 1.40	$ 2.14	$ 2.34
Diluted earnings per share for Common and Class B common stock:			
Net income from continuing operations attributable to Watsco, Inc. shareholders	$ 1.40	$ 2.09	$ 2.34
Net loss from discontinued operations attributable to Watsco, Inc. shareholders	—	—	(0.07)
Net income attributable to Watsco, Inc. shareholders	$ 1.40	$ 2.09	$ 2.27

See accompanying notes to consolidated financial statements.

WATSCO, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)	December 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 58,093	$ 41,444
Accounts receivable, net	266,284	151,317
Inventories	410,078	250,914
Other current assets	20,843	13,028
Total current assets	755,298	456,703
Property and equipment, net	33,118	24,209
Goodwill	303,257	219,810
Intangible assets	58,566	10,658
Other assets	10,374	4,681
	$ 1,160,613	$ 716,061
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	$ 151	$ 268
Accounts payable	145,825	63,850
Accrued expenses and other current liabilities	77,950	43,706
Total current liabilities	223,926	107,824
Long-term obligations:		
Borrowings under revolving credit agreements	12,763	20,000
Other long-term obligations, net of current portion	666	783
Total long-term obligations	13,429	20,783
Deferred income taxes and other liabilities	28,450	16,794
Commitments and contingencies (Notes 10 and 12)		
Watsco, Inc. shareholders' equity:		
Common stock, $0.50 par value, 60,000,000 shares authorized; 34,209,913 and 30,882,931 shares issued in 2009 and 2008, respectively	17,105	15,442
Class B common stock, $0.50 par value, 10,000,000 shares authorized; 4,299,644 and 3,813,620 shares issued in 2009 and 2008, respectively	2,150	1,907
Preferred stock, $0.50 par value, 10,000,000 shares authorized; no shares issued	-	-
Paid-in capital	461,563	282,636
Accumulated other comprehensive loss, net of tax	(821)	(1,125)
Retained earnings	372,454	386,225
Treasury stock, at cost, 6,370,913 shares of Common and Class B common stock in 2009 and 2008	(114,425)	(114,425)
Total Watsco, Inc. shareholders' equity	738,026	570,660
Noncontrolling interest	156,782	-
Total shareholders' equity	894,808	570,660
	$ 1,160,613	$ 716,061

See accompanying notes to consolidated financial statements.

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

(In thousands, except share and per share data)	Common Stock, Class B Common Stock and Preferred Stock Shares	Common Stock, Class B Common Stock and Preferred Stock Amount	Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Noncontrolling Interest	Total
Balance at December 31, 2006	**27,832,831**	**$16,934**	**$253,422**	**$(126)**	**$346,375**	**$(100,219)**	**—**	**$516,386**
Net income					65,577			65,577
Changes in unrealized gains and losses on available-for-sale securities and derivative instruments, net of income taxes				(305)				(305)
Comprehensive income								65,272
Retirement of common stock	(17,291)	(9)	(893)					(902)
Common stock contribution to 401(k) plan	27,111	14	1,265					1,279
Stock issuances from exercise of stock options and employee stock purchase plan	268,652	133	4,488					4,621
Excess tax benefit from share-based compensation			3,462					3,462
Issuances of non-vested (restricted) shares of common stock	91,255	46	(46)					—
Forfeitures of non-vested (restricted) shares of common stock	(1,988)	(1)	1					—
Share-based compensation			5,970					5,970
Cash dividends declared on Common and Class B common stock, $1.31 per share					(36,745)			(36,745)
Purchase of treasury stock	(231,100)					(9,386)		(9,386)
Balance at December 31, 2007	**27,969,470**	**17,117**	**267,669**	**(431)**	**375,207**	**(109,605)**	**—**	**549,957**
Net income					60,369			60,369
Changes in unrealized gains and losses on available-for-sale securities and derivative instruments, net of income taxes				(694)				(694)
Comprehensive income								59,675
Retirement of common stock	(261,014)	(131)	(9,798)					(9,929)
Common stock contribution to 401(k) plan	33,986	17	1,232					1,249
Stock issuances from exercise of stock options and employee stock purchase plan	643,796	323	12,344					12,667
Excess tax benefit from share-based compensation			4,758					4,758
Issuances of non-vested (restricted) shares of common stock	45,000	23	(23)					—
Share-based compensation			6,454					6,454
Cash dividends declared on Common and Class B common stock, $1.75 per share					(49,351)			(49,351)
Purchase of treasury stock	(105,600)					(4,820)		(4,820)
Balance at December 31, 2008	**28,325,638**	**17,349**	**282,636**	**(1,125)**	**386,225**	**(114,425)**	**—**	**570,660**

Continued on next page.

(In thousands, except share and per share data)	Common Stock, Class B Common Stock and Preferred Stock Shares	Common Stock, Class B Common Stock and Preferred Stock Amount	Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Noncontrolling Interest	Total
Balance at December 31, 2008	**28,325,638**	**17,349**	**282,636**	**(1,125)**	**386,225**	**(114,425)**	**—**	**570,660**
Net income					43,314		8,259	51,573
Changes in unrealized gains and losses on available-for-sale securities and derivative instruments, net of income taxes				304				304
Comprehensive income								51,877
Retirement of common stock	(206,029)	(103)	(9,335)					(9,438)
Common stock contribution to 401(k) plan	33,779	17	1,280					1,297
Stock issuances from exercise of stock options and employee stock purchase plan	823,320	412	11,885					12,297
Excess tax benefit from share-based compensation			9,589					9,589
Issuances of non-vested (restricted) shares of common stock	86,635	43	(43)					—
Forfeitures of non-vested (restricted) shares of common stock	(5,168)	(3)	3					—
Share-based compensation			5,264					5,264
Cash dividends declared on Common and Class B common stock, $1.89 per share					(57,085)			(57,085)
Common and Class B common stock issued for joint venture	3,080,469	1,540	149,516					151,056
Fair value increment over carrying value of locations contributed to joint venture			10,768					10,768
Fair value of noncontrolling interest							108,883	108,883
Share of carrying value of our locations contributed to joint venture							12,448	12,448
Non-cash capital contribution of inventory by noncontrolling interest							32,000	32,000
Distribution to noncontrolling interest							(4,808)	(4,808)
Balance at December 31, 2009	**32,138,644**	**$19,255**	**$461,563**	**$(821)**	**$372,454**	**$(114,425)**	**$156,782**	**$894,808**

See accompanying notes to consolidated financial statements.

WATSCO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Years Ended December 31, 2009	2008	2007
Cash flows from operating activities:			
Net income	$ 51,573	$ 60,369	$ 65,577
Loss from discontinued operations, net of income taxes	—	—	1,912
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,533	7,071	6,420
Share-based compensation	5,264	6,454	5,970
Provision for doubtful accounts	5,934	3,816	3,086
Gain on sale of property and equipment	(47)	(170)	(23)
Gain on sale of available-for-sale securities	—	—	(1,299)
Deferred income tax provision	1,972	447	4,117
Non-cash contribution for 401(k) plan	1,297	1,249	1,279
Excess tax benefits from share-based compensation	(9,589)	(4,758)	(3,462)
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	67,243	23,416	23,519
Inventories	1,204	37,153	46,416
Accounts payable and other liabilities	(46,386)	(23,020)	(48,390)
Other, net	1,289	1,446	1,649
Net cash provided by operating activities of continuing operations	88,287	113,473	106,771
Net cash provided by operating activities of discontinued operations	—	—	1,227
Net cash provided by operating activities	88,287	113,473	107,998
Cash flows from investing activities:			
Business acquisitions, net of cash acquired	(9,840)	76	(108,972)
Capital expenditures	(5,912)	(3,973)	(6,071)
Purchases of available-for-sale securities	—	—	(5,240)
Proceeds from sale of discontinued operations	—	—	3,342
Proceeds from sale of available-for-sale securities	—	—	8,551
Proceeds from sale of property and equipment	249	226	428
Net cash used in investing activities of continuing operations	(15,503)	(3,671)	(107,962)
Net cash used in investing activities of discontinued operations	—	—	(38)
Net cash used in investing activities	(15,503)	(3,671)	(108,000)
Cash flows from financing activities:			
Dividends on Common and Class B common stock	(57,085)	(49,351)	(36,745)
Net (repayments) proceeds under revolving credit agreements	(7,237)	(34,000)	24,000
Payment of fees related to revolving credit agreements	(6,695)	—	(476)
Distribution to noncontrolling interest	(4,808)	—	—
Net (repayments) proceeds from other long-term obligations	(234)	(266)	81
Purchase of treasury stock	—	(4,820)	(9,386)
Repayment of long-term notes	—	—	(10,000)
Excess tax benefits from share-based compensation	9,589	4,758	3,462
Net proceeds from issuances of common stock	10,335	5,916	4,131
Net cash used in financing activities	(56,135)	(77,763)	(24,933)
Net increase (decrease) in cash and cash equivalents	16,649	32,039	(24,935)
Cash and cash equivalents at beginning of year	41,444	9,405	34,340
Cash and cash equivalents at end of year	$ 58,093	$ 41,444	$ 9,405

Supplemental cash flow information (Note 15)

See accompanying notes to consolidated financial statements.

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

1. Summary of Significant Accounting Policies

Nature of Operations

Watsco, Inc. and its subsidiaries (collectively, "Watsco," which may be referred to as *we*, *us* or *our*) is the largest distributor of air conditioning, heating and refrigeration equipment and related parts and supplies ("HVAC/R") in the HVAC/R distribution industry. Since 1989, our HVAC/R distribution revenues have increased from approximately $64,000 to $2,001,815 in 2009. On July 1, 2009, we completed the formation of a joint venture with Carrier Corporation ("Carrier"), a unit of United Technologies Corporation, to distribute Carrier, Bryant and Payne products throughout the U.S. Sunbelt, Latin America and the Caribbean (see Note 7). In the formation of the joint venture, Carrier Enterprise, LLC ("Carrier Enterprise"), Carrier contributed 95 locations in the U.S. Sunbelt and Puerto Rico and the export division located in Miami, Florida and we contributed 15 locations. Of our existing network, the newly formed joint venture, Carrier Enterprise, represents 110 locations in 20 states and Puerto Rico and serves over 19,000 air conditioning and heating contractors. Including Carrier Enterprise, at December 31, 2009 we operated from 505 locations in 36 states.

Financial Statement Presentation

On July 19, 2007, we divested of our non-core staffing unit (see Note 13).

Basis of Consolidation

The consolidated financial statements include the accounts of Watsco and all of its wholly-owned subsidiaries and effective July 1, 2009, includes our 60% controlling interest in Carrier Enterprise (see Note 7). All significant intercompany balances and transactions have been eliminated.

Reclassifications

Certain reclassifications of prior year amounts have been made to conform to the 2009 presentation. These reclassifications had no effect on net income or earnings per share as previously reported.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles ("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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include valuation reserves for accounts receivable, inventory and income taxes, reserves related to self-insurance programs and valuation of goodwill and indefinite lived intangible assets. Actual results could differ from those estimates.

Accounting Changes

Business Combinations

In December 2007, the Financial Accounting Standards Board ("FASB") revised the accounting guidance for recognizing and measuring assets acquired and liabilities assumed in a business combination and require, among other things, that transaction costs in a business combination be expensed as incurred. This guidance was effective for business combinations closing after January 1, 2009. See Note 7 for information on acquisitions.

Noncontrolling Interests

In December 2007, the FASB issued accounting guidance which clarified that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. This guidance affected our consolidated financial statements beginning July, 1, 2009, as a result of the formation of Carrier Enterprise on this date. See Note 7.

Earnings per Share

In June 2008, the FASB issued earnings per share guidance stating that non-vested share-based payment awards that contain non-forfeitable rights to dividends are considered participating securities and should be included in the computation of earnings per share pursuant to the two-class method. We adopted the provisions of this accounting guidance effective January 1, 2009 and computed earnings per share using the two-class method for all periods presented. See Note 1, "Earnings per Share." The two-class method of computing earnings per share based on the new accounting guidance reduced diluted earnings per share for our Common and Class B common stock by the following amounts:

Years Ended December 31,	2009	2008	2007
Diluted earnings per share for Common and Class B common stock excluding effect of the participating securities	**$ 1.46**	$ 2.18	$ 2.36
Less: effect of the participating securities	**$ 0.06**	$ 0.09	$ 0.09
Diluted earnings per share for Common and Class B common stock as adjusted	**$ 1.40**	$ 2.09	$ 2.27

Cash Equivalents

All highly liquid instruments purchased with original maturities of three months or less are considered to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable primarily consists of trade receivables due from customers. Our customers are primarily independent contractors and dealers who service the replacement and new construction markets for residential and light commercial central air conditioning, heating and refrigeration systems. We routinely grant credit to customers to facilitate revenue growth and maintain branch locations for product sales and distribution. When determining whether to grant or increase credit, management considers a number of factors, which include creditworthiness, customer payment history and historical experience with the customer and other information. Consistent with industry practices, we normally require payment from our customers within 30 to 45 days. We record our trade receivables at the invoiced amount less an allowance for doubtful accounts. An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of customers to make required payments. When preparing these estimates, we consider a number of factors, including the aging of a customer’s account, past transactions with customers, creditworthiness of specific customers, historical trends and other information. We typically do not require our customers to provide collateral. Accounts receivable reserve policies are reviewed periodically, reflecting current risks, trends and changes in industry conditions. The past due status of an account is determined based on stated payment terms. Upon determination that an account is uncollectible, we write off the receivable balance. At December 31, 2009 and 2008, the allowance for doubtful accounts totaled $10,942 and $3,941, respectively. Although we believe the allowance is sufficient, a continuing declining economic condition could lead to further deterioration in the financial condition of our customers, resulting in an impairment of their ability to make payments and additional allowances may be required.

Inventories

Inventories consist of air conditioning, heating and refrigeration equipment and related parts and supplies and are valued at the lower of cost or market using a weighted-average cost basis and the first-in, first-out method. As part of the valuation process, inventory reserves are established to state excess, slow-moving and damaged inventories at their estimated net realizable value. Inventory reserve policies are reviewed periodically, reflecting current risks, trends and changes in industry conditions. A reserve for estimated inventory shrinkage is also maintained to consider inventory shortages determined from cycle counts and physical inventories.

Vendor Rebates

We have arrangements with several vendors that provide rebates payable to us when we achieve any of a number of measures, generally related to the volume level of purchases. We account for such rebates as a reduction of inventory until we sell the product, at which time such rebates are reflected as a reduction of cost of sales in our consolidated statements of income. Throughout the year, we estimate the amount of the rebate based on our estimate of purchases to date relative to the purchase levels that mark our progress toward earning the rebates. We continually revise these estimates of earned vendor rebates based on actual purchase levels. At December 31, 2009 and 2008, we have $5,019 and $4,416, respectively, of rebates recorded as a reduction of inventory. Substantially all vendor rebate receivables are collected within three months immediately following the end of the year.

Marketable Securities

Investments in marketable equity securities of $104 and $279 at December 31, 2009 and 2008, respectively, are included in other assets in our consolidated balance sheets and are classified as available-for-sale. These equity securities are recorded at market using the specific identification method with unrealized holding losses, net of deferred taxes, reported in accumulated other comprehensive loss (“OCL”) within shareholders’ equity. Dividend and interest income are recognized in the statement of income when earned. At December 31, 2009 and 2008, $389 and $347 of unrealized losses, net of deferred tax benefits of $237 and $208, respectively, was included in accumulated OCL.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of property and equipment is computed using the straight-line method. Buildings and improvements are depreciated or amortized over estimated useful lives ranging from 3-40 years. Leasehold improvements are amortized over the shorter of the respective lease terms or estimated useful lives. Estimated useful lives for other depreciable assets range from 3-7 years. Depreciation and amortization expense related to property and equipment amounted to $7,342, $6,612 and $6,196 for the years ended December 31, 2009, 2008 and 2007, respectively.

Goodwill and Intangible Assets

Goodwill is recorded when the purchase price paid for an acquisition exceeds the fair value of the net identified tangible and intangible assets acquired. We perform an impairment review on an annual basis, or more frequently if indicators of potential impairment exist, to determine if the carrying value of the recorded goodwill is impaired. The impairment review process compares the fair value of the reporting unit in which goodwill resides to its carrying value. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of goodwill within the reporting unit is less than its carrying value. See Note 8 for further information on goodwill.

Intangible assets primarily consist of the value of trade names and trademarks, distributor agreements, customer relationships and non-compete agreements. Indefinite lived intangibles not subject to amortization are assessed for impairment at least annually, or more frequently if events or changes in circumstances indicate they may be impaired, by comparing the fair value of the intangible asset to its carrying amount to determine if a write-down to fair value is required. Finite lived intangible assets are amortized using the straight-line method over their respective estimated useful lives. See Note 8 for further information on intangible assets.

Impairment of Long-Lived Assets Other than Goodwill

Long-lived assets, including intangible assets with finite lives, are tested for recoverability when events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Recoverability is evaluated by determining whether the amortization of the balance over its remaining life can be recovered through undiscounted future operating cash flows. The amount of impairment if any, is measured based on projected discounted cash flows using a discount rate reflecting the average cost of funds and compared to the asset’s carrying value. As of December 31, 2009, there were no such events or circumstances.

Fair Value Measurements

We carry various assets and liabilities at fair value in the consolidated balance sheets. Beginning in 2008, we applied new accounting guidance that defined fair value as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. Fair value measurements under the accounting guidance are classified based on the following fair value hierarchy:

Level 1 Quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Observable inputs other than Level 1 prices such as quoted prices in active markets for similar assets or liabilities; quoted prices in markets that are not active; or model-driven valuations or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs for the asset or liability. These inputs reflect our own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Revenue Recognition

Revenue primarily consists of sales of air conditioning, heating and refrigeration equipment and related parts and supplies and is recorded when shipment of products or delivery of services has occurred. Assessment of collection is based on a number of factors, including past transactions, creditworthiness of customers, historical trends and other information. Substantially all customer returns relate to products that are returned under warranty obligations underwritten by manufacturers, effectively mitigating our risk of loss for customer returns. Taxes collected from our customers and remitted to governmental authorities are presented in our consolidated statements of income on a net basis.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense amounted to $12,106, $5,841 and $6,314 for the years ended December 31, 2009, 2008 and 2007, respectively.

Shipping and Handling

Shipping and handling costs associated with inbound freight are capitalized to inventories and relieved through cost of sales as inventories are sold. Shipping and handling costs associated with the delivery of products is included in selling, general and administrative expenses. Shipping and handling costs included in selling, general and administrative expenses amounted to $14,829, $6,444 and $6,747 for the years ended December 31, 2009, 2008 and 2007, respectively.

Share-Based Compensation

The fair value of stock option and non-vested (restricted) stock awards are expensed on a straight-line basis over the vesting period of the awards. Share-based compensation expense is included in selling, general and administrative expenses in our consolidated statements of income. Cash flows from the tax benefits resulting from tax deductions in excess of the compensation expense recognized for those options are classified as financing cash flows. Tax benefits resulting from tax deductions in excess of share-based compensation expense recognized are credited to paid-in capital in the consolidated balance sheets. See Note 6 for further information on share-based compensation.

Income Taxes

We record federal and state income taxes currently payable, as well as deferred taxes due to temporary differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities reflect the temporary differences between the financial statement and income tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates is recognized as income or expense in the period that includes the enactment date. Watsco and its eligible subsidiaries file a consolidated United States federal income tax return. As income tax returns are generally not filed until well after the closing process for the December 31 financial statements is complete, the amounts recorded at December 31 reflect estimates of what the final amounts will be when the actual income tax returns are filed for that calendar year. In addition, estimates are often required with respect to, among other things, the appropriate state income tax rates to use in the various states that Watsco and its subsidiaries are required to file, the potential utilization of operating loss carryforwards and valuation allowances required, if any, for tax assets that may not be realizable in the future.

We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the “more-likely-than-not” threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

Earnings per Share

Earnings per share is computed using the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. Our non-vested (restricted) stock are considered participating securities since the share-based awards contain a non-forfeitable right to dividends irrespective of whether the awards ultimately vest. Under the two-class method, earnings per common share for our Common and Class B common stock is computed by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted-average number of shares of Common stock and Class B common stock outstanding for the period. In applying the two-class method, undistributed earnings are allocated to Common stock, Class B common stock and participating securities based on the weighted-average shares outstanding during the period.

Diluted earnings per share for our Common stock assumes the conversion of all of our Class B common stock (2,844,935, 2,435,546 and 2,343,613 shares as of December 31, 2009, 2008 and 2007, respectively) into Common stock as of the beginning of the period and adjusts for the dilutive effects of outstanding stock options using the treasury stock method.

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

Years Ended December 31,	2009	2008	2007
Basic Earnings per Share:			
Net income attributable to Watsco, Inc. shareholders	**$ 43,314**	$ 60,369	$ 65,577
Less: distributed and undistributed earnings allocated to non-vested (restricted) common stock	**3,320**	3,809	4,011
Earnings allocated to Watsco, Inc. shareholders	**$ 39,994**	$ 56,560	$ 61,566
Allocation of earnings for Basic:			
Common stock	**$ 36,005**	$ 51,353	$ 56,079
Class B common stock	**3,989**	5,207	5,487
	$ 39,994	$ 56,560	$ 61,566
Diluted Earnings per Share:			
Net income attributable to Watsco, Inc. shareholders	**$ 43,314**	$ 60,369	$ 65,577
Less: distributed and undistributed earnings allocated to non-vested (restricted) common stock	**3,320**	3,796	3,959
Earnings allocated to Watsco, Inc. shareholders	**$ 39,994**	$ 56,573	$ 61,618

Years Ended December 31,	2009	2008	2007
Weighted-average Common and Class B common shares outstanding for Basic	**28,521,437**	26,453,167	26,296,555
Effect of dilutive stock options	**-**	568,560	842,063
Weighted-average Common and Class B common shares outstanding for Diluted	**28,521,437**	27,021,727	27,138,618

For the year ended December 31, 2009, no potential shares related to stock options were included in the calculation of diluted earnings per share because it would result in an anti-dilutive effect on diluted earnings per share. Accordingly, we excluded from the diluted earnings per share calculation 298,162 diluted shares related to stock options that were outstanding at December 31, 2009.

Diluted earnings per share excluded 261,015 and 219,640 shares for the years ended December 31, 2008 and 2007, respectively, related to stock options with an exercise price per share greater than the average market value, resulting in an anti-dilutive effect on diluted earnings per share.

Derivative Instruments

All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in OCL and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. See Note 10 for further information regarding hedging activities.

Comprehensive Income

Comprehensive income consists of net income and changes in the unrealized losses (gains) on available-for-sale securities and the effective portion of cash flow hedges as further discussed in Note 10. The components of comprehensive income are as follows:

Years Ended December 31,	2009	2008	2007
Net income	**$51,573**	$60,369	$65,577
Changes in unrealized gains (losses) on derivative instruments, net of income tax expense (benefit) of $205, $(248) and $(137), respectively	**346**	(411)	(230)
Changes in unrealized (losses) gains on available-for-sale securities, net of income tax (benefit) expense of $(29), $(170) and $218, respectively	**(42)**	(283)	361
Reclassification adjustment for securities gains and losses on a derivative instrument realized in net income, net of income tax expense of $0, $0 and $262, respectively	**—**	—	(436)
Comprehensive income	**51,877**	59,675	65,272
Less: comprehensive income attributable to the noncontrolling interest	**8,259**	—	—
Comprehensive income attributable to Watsco, Inc.	**$43,618**	$59,675	$65,272

Recently Adopted Accounting Standards

Fair Value Measurements

On January 1, 2009, we adopted accounting guidance issued by the FASB which had previously deferred the effective date of fair value measurements for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed in financial statements at fair value on a recurring basis (at least annually). The adoption of this guidance did not have a material impact on our consolidated financial statements. See Note 11 for information on fair value measurements.

Effective June 30, 2009, we adopted accounting guidance issued by the FASB that provides additional guidance on factors to consider in estimating fair value when there has been a significant decrease in market activity for a financial asset. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Effective June 30, 2009, we adopted guidance amended by the FASB that requires fair value disclosures in interim financial statements in order to provide more timely information about the effects of current market conditions on financial instruments. The adoption of this guidance did not have an impact on our consolidated financial statements.

Other-Than-Temporary Impairments

Effective June 30, 2009, we adopted accounting guidance issued by the FASB that changed the method for determining whether an other-than-temporary impairment exists for debt securities and the amount of the impairment to be recorded in earnings. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Disclosures about Derivative Instruments and Hedging Activities

On January 1, 2009, we adopted a new accounting standard issued by the FASB which requires enhanced disclosures about an entity's derivative and hedging activities. The adoption of this guidance did not change our accounting for derivative instruments and did not have a material impact on our consolidated financial statements. See Note 10 for information on derivative instruments.

Subsequent Events

Effective June 30, 2009, we adopted a new accounting standard issued by the FASB which provides guidance on management's assessment of subsequent events and incorporates this guidance into accounting literature. We have evaluated subsequent events that require recognition and disclosure through February 26, 2010, the date our consolidated financial statements were issued. See Note 16 for information on subsequent events.

FASB Accounting Standards Codification

Effective September 30, 2009, we adopted authoritative guidance issued by the FASB codifying U.S. GAAP. While the guidance was not intended to change U.S. GAAP, it did change the way we reference these accounting principles in the notes to the consolidated financial statements. This guidance was effective for interim and annual reporting periods ending after September 15, 2009. The adoption of this authoritative guidance changed how we reference U.S. GAAP in our disclosures.

Recently Issued Accounting Standards

Transfers of Financial Assets

In June 2009, the FASB issued accounting guidance which addresses the accounting and disclosure requirements for transfers of financial assets. The guidance is effective for new transfers of financial assets occurring in fiscal years beginning after

November 15, 2009, and interim periods within those years. We will adopt this guidance beginning January 1, 2010 and do not expect a material impact on our consolidated financial statements.

Variable Interest Entities

In June 2009, the FASB issued accounting guidance that amends the consolidation principles for variable interest entities (“VIEs”) by requiring consolidation of VIEs based on which party has control of the entity. The guidance is effective for financial statements issued for fiscal years beginning after November 15, 2009, and interim periods within those years. We will adopt this guidance beginning January 1, 2010 and do not expect a material impact on our consolidated financial statements.

2. Supplier Concentration

We have six key suppliers of HVAC/R equipment products. Purchases from these six suppliers comprised 66%, 48% and 48% of all purchases made in 2009, 2008 and 2007, respectively; with the largest supplier, Carrier and its affiliates, accounting for 41%, 16% and 17% of all purchases made in each of the years ended December 31, 2009, 2008 and 2007. Any significant interruption by Carrier or the other suppliers in the delivery of products could impair our ability to maintain current inventory levels or a termination of a distribution agreement could disrupt the operations of certain subsidiaries and could materially impact our consolidated results of operations and consolidated financial position. See Note 14 for further information regarding related party transactions.

3. Property and Equipment

Property and equipment, net, consists of:

December 31,	2009	2008
Land	**$ 1,520**	$ 1,106
Buildings and improvements	**36,840**	24,211
Machinery, vehicles and equipment	**47,671**	31,713
Furniture and fixtures	**12,434**	14,512
	98,465	71,542
Less: accumulated depreciation and amortization	**(65,347)**	(47,333)
	$ 33,118	$ 24,209

4. Long-Term Obligations

Watsco Revolving Credit Agreement

We maintain a bank-syndicated, unsecured revolving credit agreement that provides for borrowings of up to $300,000. 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. Included in the facility are a $25,000 swingline subfacility and a $50,000 letter of credit subfacility. Borrowings bear interest at primarily LIBOR-based rates plus a spread which ranges from 37.5 to 112.5 basis-points depending upon our ratio of total debt to EBITDA (LIBOR plus 40 basis-points at December 31, 2009). We pay a variable commitment fee on the unused portion of the commitment, ranging from 7.5 to 20 basis-points (8 basis-points at December 31, 2009). Alternatively, we may elect to have borrowings bear interest at the Prime Rate or the Federal Funds Rate plus our spread. The credit facility matures in August 2012. At December 31, 2009 and 2008, $12,750 and $20,000, respectively, were outstanding under the revolving credit agreement.

On July 1, 2009, we amended our $300,000 credit agreement to allow for the consummation of the joint venture, Carrier Enterprise. We paid an amendment fee of $5,483, which is being amortized ratably through the maturity of the facility in August 2012. All other significant terms and conditions remained the same, including capacity, pricing and covenant structure.

The revolving credit agreement contains customary affirmative and negative covenants including financial covenants with respect to consolidated leverage and interest coverage ratios and limits capital expenditures, dividends and share repurchases in addition to other restrictions. We believe we were in compliance with all covenants and financial ratios at December 31, 2009.

Carrier Enterprise Revolving Credit Agreement

On July 1, 2009, Carrier Enterprise entered into a separate secured three-year $75,000 revolving credit agreement with three lenders. Borrowings under the credit facility will be used by Carrier Enterprise for general corporate purposes, including working capital and permitted acquisitions. Included in the facility are a $15,000 swing loan subfacility and a $5,000 letter of credit subfacility. Borrowings bear interest at primarily LIBOR-based rates plus a spread which ranges from 275 to 325 basis-points depending upon Carrier Enterprise's ratio of total debt to EBITDA (LIBOR plus 275 basis-points at December 31, 2009). Carrier Enterprise pays a fixed commitment fee on the unused portion of the commitment of 50 basis-points. Alternatively, Carrier Enterprise has the option to elect to have borrowings bear interest at the higher of the Prime Rate, the Federal Funds Rate plus 50 basis-points or a LIBOR-based rate plus 150 basis-points. The credit facility is secured by substantially all tangible and intangible assets of Carrier Enterprise. Carrier Enterprise paid fees of $1,212 in connection with entering into the credit agreement, which are being amortized ratably through the maturity of the facility in July 2012. As of December 31, 2009, $13 was outstanding under this credit facility.

The revolving credit agreement contains customary affirmative and negative covenants and warranties, including compliance with a monthly borrowing base certificate with advance rates on accounts receivable and inventory, two financial covenants with respect to Carrier Enterprise's leverage and interest coverage ratios and limitations on the level of capital expenditures in addition to other restrictions. We believe Carrier Enterprise was in compliance with all covenants and financial ratios at December 31, 2009.

Long-Term Notes

A $125,000 unsecured private placement shelf facility was also maintained as a source of long-term borrowings through December 10, 2007. This uncommitted shelf facility provided fixed-rate financing as a complement to the variable rate borrowings available under the revolving credit agreement.

Other Long-Term Obligations

Other long-term obligations, net of current portion, of $666 and $783 at December 31, 2009 and 2008, respectively, relate to a mortgage loan and capital leases on equipment. Interest rates on other debt range from 1.0% to 9.3% and mature at varying dates through 2020. Annual maturities of other long-term obligations for the years subsequent to December 31, 2009 are as follows:

2010	$ 151
2011	90
2012	56
2013	47
2014	51
Thereafter	422
	$ 817

5. Income Taxes

The components of income tax expense from continuing operations for our wholly-owned operations and our 60% controlling interest in Carrier Enterprise are as follows:

Years Ended December 31,	2009	2008	2007
Federal	**$ 24,308**	$ 32,493	$ 37,387
State	**2,448**	3,728	3,106
	$ 26,756	$ 36,221	$ 40,493
Current	**$ 24,784**	$ 35,774	$ 36,376
Deferred	**1,972**	447	4,117
	$ 26,756	$ 36,221	$ 40,493

We calculate our income tax expense and our effective tax rate for 100% of income attributable to Watsco's wholly-owned operations and investments and 60% of income attributable to Carrier Enterprise, which is taxed as a partnership for income tax purposes.

Following is a reconciliation of the effective income tax rate:

Years Ended December 31,	2009	2008	2007
Federal statutory rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal benefit and other	**2.8**	2.5	2.5
Effective income tax rate attributable to Watsco, Inc.	**37.8**	37.5	37.5
Effective income tax rate attributable to the noncontrolling interest	**(3.6)**	—	—
Effective income tax rate	**34.2%**	37.5%	37.5%

The following is a summary of the significant components of our current and long-term deferred tax assets and liabilities:

December 31,	2009	2008
Current deferred tax assets:		
Allowance for doubtful accounts	**$3,332**	$1,626
Capitalized inventory costs and inventory reserves	**5,056**	3,074
Self-insurance reserves	**1,418**	1,452
Other current deferred tax assets	**1,174**	1,168
Total current deferred tax assets (1)	**10,980**	7,320
Long-term deferred tax assets (liabilities):		
Deductible goodwill	**(30,890)**	(25,503)
Net operating loss carryforwards	**366**	492
Unrealized loss on derivative instruments	**268**	483
Depreciation	**869**	1,287
Share-based compensation	**9,530**	8,289
Other long-term net deferred tax assets	**(221)**	238
Total net long-term deferred tax liabilities	**(20,078)**	(14,714)
Net deferred tax liabilities	**$(9,098)**	$(7,394)

(1) Current deferred tax assets of $10,980 and $7,320 have been included in the consolidated balance sheets in other current assets at December 31, 2009 and 2008, respectively.

Management has determined that no valuation allowance was necessary at December 31, 2009 to reduce the deferred tax assets to the amount that will more likely than not be realized. At December 31, 2009, there were state net operating loss carryforwards of $10,790, which expire in varying amounts from 2010 through 2028. These amounts are available to offset future taxable income. There were no federal net operating loss carryforwards at December 31, 2009.

We are subject to U.S. federal income tax and income tax of multiple state jurisdictions. We are open to tax audits in the various jurisdictions until the respective statutes of limitations expire. In June 2008, the Internal Revenue Service finalized an examination of our federal income tax returns for the 2004 and 2005 tax years. The adjustments resulting from this examination did not have a material effect on our consolidated financial position, results of operations or cash flows. We are no longer subject to U.S. federal tax examinations for tax years prior to 2006. For the majority of states, we are no longer subject to tax examinations for tax years prior to 2005.

As of December 31, 2009 and 2008, the total amount of gross unrecognized tax benefits (excluding the federal benefit received from state positions) was $1,990 and $2,296, respectively. Of these totals, $1,481 and $1,803, respectively, (net of the federal benefit received from state positions) represent the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate. Our continuing practice is to recognize penalties within selling, general and administrative expenses and interest related to income tax matters in income tax expense in the consolidated statements of income. As of December 31, 2009 and 2008, the cumulative amount of estimated accrued interest and penalties resulting from such unrecognized tax benefits was $317 and $362, respectively, and is included in other liabilities in the accompanying consolidated balance sheets.

The change in gross unrecognized tax benefits during 2009 and 2008 is as follows:

Gross balance at January 1, 2008	$ 2,173
Additions based on tax positions related to the current year	256
Additions for tax positions of prior years	69
Reductions for tax positions of prior years	(202)
Gross balance at December 31, 2008	2,296
Additions based on tax positions related to the current year	146
Additions for tax positions of prior years	206
Reductions for tax positions of prior years	(658)
Gross balance at December 31, 2009	**$ 1,990**

6. Share-Based Compensation and Benefit Plans

Share-Based Compensation Plans

We have two share-based compensation plans for employees. The 2001 Incentive Compensation Plan (the “2001 Plan”) provides for the award of a broad variety of share-based compensation alternatives such as non-qualified stock options, incentive stock options, non-vested (restricted) stock, performance awards, dividend equivalents, deferred stock and stock appreciation rights at no less than 100% of the market price on the date the award is granted. To date, awards under the 2001 Plan consist of non-qualified stock options and non-vested (restricted) stock. Under the 2001 Plan, awards for an aggregate of 4,000,000 shares of Common and Class B common stock may be granted. A total of 1,615,462 shares of Common stock, net of cancellations and 1,121,446 shares of Class B common stock, net of cancellations have been awarded under the 2001 Plan as of December 31, 2009. There were 1,263,092 shares of common stock reserved for future grants as of December 31, 2009 under the 2001 Plan. There are 586,700 options of common stock outstanding under the 2001 Plan at December 31, 2009. Options under the 2001 Plan vest over two to five years of service and have contractual terms of five to ten years.

Awards of non-vested (restricted) stock, which are granted at no cost to the employee, vest upon attainment of a certain age, generally the employee’s respective retirement age. Vesting may be accelerated in certain circumstances prior to the original vesting date.

We also maintain the 1991 Stock Option Plan (the “1991 Plan”), which expired during 2001; therefore, no additional options may be granted. There are 28,300 options of common stock outstanding under the 1991 Plan at December 31, 2009. Options under the 1991 Plan vest over two to five years of service and have contractual terms of ten years.

A summary of stock option activity under the 2001 Plan and 1991 Plan as of December 31, 2009, and changes during 2009, is as follows:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2009	1,384,900	$ 21.79		
Granted	45,000	50.00		
Exercised	(804,900)	14.36		
Forfeited	(8,000)	47.52		
Expired	(2,000)	41.96		
Options outstanding at December 31, 2009	**615,000**	**$ 33.19**	**2.37**	**$ 11,168**
Options exercisable at December 31, 2009	**457,500**	**$ 27.96**	**2.09**	**$ 10,612**

The weighted-average grant date fair value of stock options granted during 2009, 2008 and 2007 was $9.93, $7.06 and $11.07, respectively. The total intrinsic value of stock options exercised during 2009, 2008 and 2007 was $11,555, $11,986 and $3,841, respectively. The fair value of stock options that vested during 2009, 2008 and 2007 was $3,750, $2,158 and $1,120, respectively.

A summary of non-vested (restricted) stock issued as of December 31, 2009, and changes during 2009, is shown below:

	Shares	Weighted-Average Grant Date Fair Value
Non-vested (restricted) stock outstanding at January 1, 2009	1,787,169	$ 29.94
Granted	86,635	49.62
Vested	(42,635)	22.97
Forfeited	(5,168)	50.93
Non-vested (restricted) stock outstanding at December 31, 2009	**1,826,001**	**$ 30.98**

The weighted-average grant date fair value of non-vested (restricted) stock granted during 2009, 2008 and 2007 was $49.62, $43.04 and $52.34, respectively. The fair value of non-vested stock that vested during 2009, 2008 and 2007 was $1,460, $704 and $128, respectively.

Share-Based Compensation Fair Value Assumptions

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option pricing valuation model based on the weighted-average assumptions noted in the table below. The fair value of each stock option award, which is subject to graded vesting, is expensed, net of estimated forfeitures, on a straight-line basis over the requisite service period for each separately vesting portion of the stock option. We use historical data to estimate stock option forfeitures within the valuation model. The expected term of stock option awards granted represents the period of time that stock option awards granted are expected to be outstanding and was calculated using the simplified method for plain vanilla options. We will continue to use the simplified method until we have the historical data necessary to provide a reasonable estimate of expected life. The risk-free rate for periods within the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the stock option award is granted with a maturity equal to the expected term of the stock option award. Expected volatility is based on historical volatility of our stock.

The weighted-average assumptions relating to the valuation of our stock options were as follows:

Years Ended December 31,	**2009**	**2008**	**2007**
Expected term in years	**4.25**	4.25	4.25
Risk-free interest rate	**1.96%**	2.13%	4.38%
Expected volatility	**34.03%**	27.33%	24.29%
Expected dividend yield	**4.32%**	3.40%	2.26%

Share-Based Compensation Expense

Share-based compensation expense included in selling, general and administrative expenses amounted to $5,264, $6,454 and $5,970 for the years ended December 31, 2009, 2008 and 2007, respectively.

Cash received from Common stock issued as a result of stock options exercised during 2009, 2008 and 2007 was $9,592, $5,235 and $3,351, respectively. During 2009, 2008 and 2007, 206,029 shares of Common and Class B common stock with an aggregate market value of $9,438, 261,014 shares of Common and Class B common stock with an aggregate market value of $9,929 and 17,291 shares of Common stock with an aggregate market value of $902, respectively, were delivered as payment in lieu of cash for stock option exercises and related tax withholdings. Upon delivery these shares were retired. The tax benefit realized for the tax deductions from share-based compensation plans totaled $9,789, $5,095 and $3,542, for the years ended December 31, 2009, 2008 and 2007, respectively.

At December 31, 2009, there was $516 of unrecognized share-based compensation expense related to stock options granted under the 2001 Plan, which is expected to be recognized over a weighted-average period of 1.9 years. At December 31, 2009, there was $34,161 of unrecognized share-based compensation expense related to non-vested (restricted) stock, which is expected to be recognized over a weighted-average period of 9.0 years. In the event that vesting is accelerated for any circumstance, as defined in the related agreements, the remaining unrecognized share-based compensation expense would be immediately recognized as a charge to earnings. Approximately $25,000 of the unrecognized share-based compensation for shares of non-vested stock is related to awards granted to our Chief Executive Officer that vest in approximately 9 years upon his attainment of age 78.

Employee Stock Purchase Plan

The Watsco, Inc. Amended and Restated 1996 Qualified Employee Stock Purchase Plan (the “Watsco ESPP”) provides for up to 1,000,000 shares of Common stock to be available for purchase by our full-time employees with at least 90 days of service. The plan allows participating employees to purchase, through payroll deductions or lump-sum contribution, shares of Common stock with a discount of 5% of the fair market value at specified times. During 2009, 2008 and 2007, employees purchased 10,917, 9,058 and 11,059 shares of Common stock at an average price of $38.18, $39.81 and $47.39 per share, respectively. Cash dividends received by the Watsco ESPP were reinvested in Common stock and resulted in additional shares issued in the amount of 7,503, 7,430 and 5,355 for the years ended December 31, 2009, 2008 and 2007, respectively. We received net proceeds of $743, $681 and $780, respectively, during 2009, 2008 and 2007, for shares of Watsco Common stock issued under the Watsco ESPP. At December 31, 2009, 83,003 shares remained available for purchase under the plan.

401(k) Plan

We have a profit sharing retirement plan for our employees that is qualified under Section 401(k) of the Internal Revenue Code. Annual matching contributions are made based on a percentage of eligible employee compensation deferrals. The contribution is made in cash or by the issuance of Common stock to the plan on behalf of our employees. For the years ended December 31, 2009, 2008 and 2007, the aggregate matching contribution required to the plan was $1,297, $1,249 and $1,279, respectively.

7. Acquisitions

On July 1, 2009, we completed the formation of a joint venture with Carrier to distribute Carrier, Bryant and Payne products throughout the U.S. Sunbelt, Latin America and the Caribbean. The newly formed joint venture, Carrier Enterprise, operates 110 locations in 20 states and Puerto Rico and serves over 19,000 air conditioning and heating contractors. In the formation of the joint venture, Carrier contributed 95 locations in the U.S. Sunbelt and Puerto Rico and the export division located in Miami, Florida and we contributed 15 locations that currently distribute Carrier, Bryant and Payne products. We purchased a 60% controlling interest in the joint venture for consideration of $172,000 and a fair value of $181,474 with options to purchase up to an additional 20% interest from Carrier (10% beginning in July 2012 and an additional 10% in July 2014). We issued 2,985,685 shares of Common stock and 94,784 shares of Class B common stock for consideration of $147,000 and a fair value of $151,056 to Carrier and contributed 15 locations that presently sell Carrier-manufactured products for consideration of $25,000 as total consideration for our 60% controlling interest in the joint venture. The fair value of the Common and Class B common stock issued as consideration was determined based on of the closing market price of our common stock on July 1, 2009. As a result of the joint venture, we operate as the largest distributor of air conditioning, heating and refrigeration equipment and related parts and supplies in the HVAC/R industry and serve over 50,000 customers in 36 states.

Based on our valuation we recognized $131,341 in goodwill and intangibles. The fair value of the identified intangible assets was $49,100 and consisted of $32,400 in trade names and distribution rights and $16,700 in customer relationships. The tax basis of the acquired goodwill recognized will be deductible for income tax purposes over 15 years. The final purchase price was subject to an adjustment of $7,201 pursuant to the Purchase and Contribution Agreement dated May 3, 2009, as amended June 29, 2009, (“Purchase and Contribution Agreement”), of which $1,418 was payable to Carrier at December 31, 2009.

The purchase price allocation is based upon a purchase price of $181,474 which represents the fair value of our 60% controlling interest in Carrier Enterprise. 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 based on the respective fair values as of July 1, 2009:

Accounts receivable	$ 186,082
Inventories	125,796
Other current assets	4,253
Property and equipment	10,048
Goodwill	82,241
Intangibles	49,100
Other assets	1,725
Accounts payable and accrued expenses	(163,485)
Other liabilities	(5,403)
Noncontrolling interest	(108,883)
Total purchase price	$ 181,474

The fair value of the assets acquired includes trade receivables and other receivables recognized in the ordinary course of business with a fair value of $186,082. The gross amount outstanding was $191,131, of which $5,049 was deemed to be uncollectible. 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. As a result of our contribution of 15 locations to the joint venture, $12,448 representing 40% of the carrying value of the contributed locations was attributed to the noncontrolling interest, $10,768 representing 40% of the difference between the fair value and carrying value of the contributed locations was recognized as an increase to paid-in capital.

In August 2009, a capital contribution in the amount of $80,000 was made to Carrier Enterprise pursuant to the Purchase and Contribution Agreement. Our share of the contribution totaling $48,000 was made as an additional capital contribution to Carrier Enterprise in cash. Carrier's share of the contribution totaling $32,000 consisted of inventory.

Revenues of $588,065 and net income attributable to Watsco, Inc. of $6,971 were contributed by the new Carrier Enterprise locations during the year ended December 31, 2009. The unaudited pro forma financial information combining our results of operations with the operations of Carrier Enterprise as if the joint venture had been consummated on January 1, 2008 is as follows:

Years ended December 31,	2009	2008
Revenues	**$2,562,319**	$2,933,662
Net income	**59,874**	76,894
Less: net income attributable to the noncontrolling interest	**13,332**	8,775
Net income attributable to Watsco, Inc.	**46,542**	68,119
Diluted earnings per share for Common and Class B common shares	**$1.53**	$2.13

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 acquisition date includes adjustments to record income taxes related to our portion of Carrier Enterprise's income, bank fees paid to amend our $300,000 revolving credit agreement upon the consummation of the joint venture, bank fees paid by Carrier Enterprise to enter into a secured three-year $75,000 revolving credit agreement and amortization related to identified intangible assets with finite lives. The unaudited pro forma financial information does not include adjustments to remove certain corporate expenses of Carrier Enterprise, which may not be incurred in future periods, adjustments for depreciation or synergies (primarily related to improved gross profit and lower general and administrative expenses) that may be realized subsequent to the acquisition date. The 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 owned and operated Carrier Enterprise as of the beginning of the periods presented.

In August 2009, one of our subsidiaries acquired certain assets and assumed certain liabilities of a wholesale distributor of air conditioning and heating products operating from six locations in Utah and serving over 500 customers. The purchase price of the acquisition included a cash payment of $4,057.

The results of operations of these acquired locations have been included in the consolidated financial statements from their respective dates of acquisition. The pro forma effect of the August 2009 acquisition was not deemed significant to the consolidated financial statements.

Approximately $4,800 of transaction costs is included in selling, general and administrative expenses in our consolidated statement of income for the year ended December 31, 2009 primarily associated with the closing and transition of Carrier Enterprise.

8. Goodwill and Intangible Assets

The recoverability of goodwill and indefinite lived intangibles is evaluated at least annually and when events or changes in circumstances indicate that the carrying amount of goodwill and indefinite lived intangibles may not be recoverable. The identification and measurement of impairment involves the estimation of the fair value of the reporting unit and indefinite lived intangibles and contains uncertainty because management must use judgment in determining appropriate assumptions to be used in the measurement of fair value. The estimate of fair value of the reporting unit is based on the best information available as of the date of the assessment 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 continuing declining economic environment or market conditions.

On January 1, 2010, we completed our annual impairment test and determined there was no impairment. No factors have developed since the last impairment test that would indicate that the carrying value of goodwill and indefinite lived intangibles may not be recoverable. The carrying amount of goodwill and intangibles at December 31, 2009 was $361,823. Although no impairment has been recorded to date, there can be no assurances that future impairments will not occur. An adjustment to the carrying value of goodwill and intangibles could materially impact the consolidated results of operations.

The changes in the carrying amount of goodwill are as follows:

Balance at December 31, 2007	$ 217,129
Purchase price adjustments, net	2,681
Balance at December 31, 2008	219,810
Acquired goodwill (1)	83,447
Balance at December 31, 2009	**$ 303,257**

(1) See Note 7 for information on acquisitions.

Intangible assets, net, included in other assets in the consolidated balance sheets consist of:

December 31,	Estimated Useful Lives	2009	2008
Indefinite lived intangible assets:			
Trade names, trademarks and distribution rights		**$ 37,963**	$ 5,683
Finite lived intangible assets:			
Customer relationships	4-15 years	**22,120**	5,420
Non-compete agreements	7 years	**369**	369
Less: accumulated amortization		**(1,886)**	(814)
Finite lived intangible assets, net		**20,603**	4,975
		$ 58,566	$ 10,658

Amortization expense related to finite lived intangible assets amounted to $1,191, $459 and $224 for the years ended December 31, 2009, 2008 and 2007, respectively. The future amortization expense for each of the five succeeding years related to all finite lived intangible assets that are currently recorded in the consolidated balance sheets is estimated to be as follows at December 31, 2009:

2010	$ 1,851
2011	1,825
2012	1,770
2013	1,760
2014	1,736
Total	$ 8,942

9. Shareholders' Equity

Common stock and Class B common stock share equally in earnings and are identical in most other respects except (i) Common stock is entitled to one vote on most matters and each share of Class B common stock is entitled to ten votes; (ii) shareholders of Common stock are entitled to elect 25% of the Board of Directors (rounded up to the nearest whole number) and Class B shareholders are entitled to elect the balance of the Board of Directors; (iii) cash dividends may be paid on Common stock without paying a cash dividend on Class B common stock and no cash dividend may be paid on Class B common stock unless at least an equal cash dividend is paid on Common stock and (iv) Class B common stock is convertible at any time into Common stock on a one-for-one basis at the option of the shareholder.

We are authorized to issue preferred stock with such designation, rights and preferences as may be determined from time to time by our Board of Directors. Accordingly, the Board of Directors is empowered, without shareholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights which could adversely affect the voting power or other rights of the holders of our Common stock and Class B common stock and, in certain instances, could adversely affect the market price of this stock. We have no preferred stock outstanding as of December 31, 2009.

Our Board of Directors has authorized the repurchase, at management's discretion, of 7,500,000 shares 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. During 2008 and 2007, 105,600 and 231,100 Common shares were repurchased at a cost of

$4,820 and $9,386, respectively. No shares were repurchased during 2009. In aggregate since the inception of the repurchase plan in 1999, 6,322,650 shares of Common stock and 48,263 shares of Class B common stock were repurchased at a cost of $114,425. The remaining 1,129,087 shares authorized for repurchase are subject to certain restrictions included in our revolving credit agreement.

10. Financial Instruments

Recorded Financial Instruments

Recorded financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, the current portion of long-term obligations, borrowings under our revolving credit agreements and debt instruments included in other long-term obligations. At December 31, 2009 and 2008, the fair values of cash and cash equivalents, accounts receivable, accounts payable and the current portion of long-term obligations approximated their carrying values due to the short-term nature of these instruments.

The fair values of variable rate borrowings under our revolving credit agreements and debt instruments included in long-term obligations also approximate their carrying value based upon interest rates available for similar instruments with consistent terms and remaining maturities.

Derivative Financial Instruments

Periodically, we enter into interest rate swap agreements to reduce our exposure to market risks from changing interest rates under our revolving credit agreement. Under the terms of the swap agreements, we agree to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to the notional principal amount. Any differences paid or received on our interest rate swap agreements are recognized as adjustments to interest expense over the life of each swap, thereby adjusting the effective interest rate on the underlying obligation. Financial instruments are not held or issued for trading purposes. In order to obtain hedge accounting treatment, any derivatives used for hedging purposes must be designated as, and effective as, a hedge of an identified risk exposure at the inception of the contract. Changes in the fair value of the derivative contract must be highly correlated with changes in the fair value of the underlying hedged item at inception of the hedge and over the life of the hedge contract. Accordingly, we record all derivative instruments as either assets or liabilities on the consolidated balance sheets at their respective fair values. We record the change in the fair value of a derivative instrument designated as a cash flow hedge in other comprehensive income to the extent the derivative is effective, and recognize the change in the statement of income when the hedged item affects earnings. Our interest rate hedge is designated as a cash flow hedge.

At December 31, 2009, one interest rate swap agreement was in effect with a notional value of $10,000, maturing in October 2011. The swap agreement exchanges the variable rate of 30-day LIBOR to a fixed interest rate of 5.07%. During the years ended December 31, 2009 and 2008, the hedging relationship was determined to be highly effective in achieving offsetting changes in cash flows.

We were party to an interest rate swap agreement with a notional amount of $10,000, which matured on October 31, 2009, that was designated as a cash flow hedge and effectively exchanged the variable rate of 30-day LIBOR to a fixed interest rate of 5.04%. During 2009 and 2008, the hedging relationship was determined to be highly effective in achieving offsetting changes in cash flows.

We were party to an interest rate swap agreement with a notional amount of $30,000, which matured on October 9, 2007, that was designated as a cash flow hedge and effectively exchanged the variable rate of 90-day LIBOR to a fixed interest rate of 6.25%. During 2007, the hedging relationship was determined to be highly effective in achieving offsetting changes in cash flows.

The negative fair value of the derivative financial instruments was $710 and $1,287 at December 31, 2009 and 2008, respectively, and is included, net of accrued interest, in deferred income taxes and other liabilities in the consolidated balance sheets. At December 31, 2009 and 2008, $432, net of deferred tax benefits of $262 and $778, net of deferred tax benefits of $467 was included in accumulated OCL associated with cash flow hedges.

The net change in OCL during 2009, 2008 and 2007, reflected the reclassification of $527, net of income tax benefit of $320, $274, net of income tax benefit of $164 and $128, net of income tax benefit of $77, respectively, of unrealized losses from accumulated OCL to current period earnings (recorded in interest expense, net in the consolidated statements of income). The net unrealized loss recorded in accumulated OCL will be reclassified to earnings on a monthly basis as interest payments occur. We estimate that approximately $450 in unrealized losses on the derivative instrument accumulated in OCL are expected to be reclassified to earnings during 2010 using a current 30-day LIBOR-based average receive rate (0.69% at December 31, 2009).

Off-Balance Sheet Financial Instruments

At December 31, 2009 and 2008, we were contingently liable under standby letters of credit aggregating $3,844 and $4,627, respectively that are primarily used as collateral to cover any contingency related to additional risk assessments pertaining to the self-insurance programs. We do not expect any material losses to result from the issuance of the standby letters of credit because claims are not expected to exceed premiums paid. Accordingly, the estimated fair value of these instruments is zero.

Concentrations of Credit Risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash investments and accounts receivable. Temporary cash investments are placed with high credit quality financial institutions and we limit the amount of credit exposure to any one financial institution or investment. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers comprising the customer base and their dispersion across many different geographical regions.

11. Fair Value Measurements

The following table presents our assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2009, segregated among the levels within the fair value hierarchy:

		Fair Value Measurements at December 31, 2009 Using		
Description	**Fair Value at December 31, 2009**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Available-for-sale securities	**$ 104**	**$ 104**	—	—
Liabilities:				
Derivative financial instruments	**$ 710**	—	**$ 710**	—

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 quoted prices in active markets and are therefore classified within Level 1 of the fair value hierarchy.

Derivative financial instruments – the derivative is a pay-variable, receive fixed interest rate swap based on 30-day LIBOR. Fair value is based on model-derived valuations using the respective LIBOR rate, which is observed at quoted intervals for the full term of the swap and incorporates adjustments to appropriately reflect our nonperformance risk and the counterparty's nonperformance risk. Therefore, the derivative is classified within Level 2 of the fair value hierarchy. See Note 10 for further information on derivative financial instruments.

12. Commitments and Contingencies

Litigation, Claims and Assessments

We are involved in litigation incidental to the operation of our business. We vigorously defend all matters in which we or our subsidiaries are named defendants and, for insurable losses, maintain significant levels of insurance to protect against adverse judgments, claims or assessments that may affect us. Although the adequacy of existing insurance coverage 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 in which we or our subsidiaries are involved will materially affect 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 amount of $7,110 and $3,875 at December 31, 2009 and 2008, respectively, were established related to such insurance programs and are included in accrued expenses and other current liabilities in our consolidated balance sheets.

Variable Interest Entities

As of December 31, 2009, in conjunction with our casualty insurance programs, limited equity interests are held in a captive insurance entity. The programs permit us to self-insure a portion of losses, to gain access to a wide array of safety-related services, to pool insurance risks and resources in order to obtain more competitive pricing for administration and reinsurance and to limit risk of loss in any particular year. The entities meet the definition of variable interest entities ("VIEs"); however, there is not a requirement to include these entities in the consolidated financial statements. The maximum exposure to loss related to our involvement with these entities is limited to approximately $5,200. See "Self-Insurance" above for further information on commitments associated with the insurance programs and Note 10, "Off-Balance Sheet Financial Instruments," for further information on standby letters of credit. As of December 31, 2009, there are no other entities that met the definition of a VIE.

Minimum Royalty Payments

We are obligated under a licensing agreement with Whirlpool Corporation to make minimum annual royalty payments of $1,000 through 2011.

Operating Leases

We are obligated under non-cancelable operating leases of real property, equipment, vehicles and a corporate aircraft used in our operations with varying terms through 2019. Some of our leases contain renewal options, some of which involve rate increases. For leases with step rent provisions whereby the rental payments increase incrementally over the life of the lease, we recognize the total minimum lease payments on a straight-line basis over the lease term. The corporate aircraft lease is subject to adjustment from changes in LIBOR-based interest rates.

As of December 31, 2009, future minimum lease payments under non-cancelable operating leases are as follows:

2010	$ 62,895
2011	47,855
2012	33,151
2013	24,488
2014	17,094
Thereafter	27,170
	$ 212,653

Rental expense for the years ended December 31, 2009, 2008 and 2007 was $55,502, $45,606 and $42,739, respectively.

13. Discontinued Operations

During June 2007, our Board of Directors approved and we executed an agreement to sell the stock of our non-core staffing unit, Dunhill Staffing Systems, Inc. ("Dunhill"). The transaction closed on July 19, 2007. Dunhill represented our "other" segment and consequently, the amounts related to this operation are presented as discontinued operations in our consolidated statement of income and our consolidated statement of cash flows for 2007. The divestiture of Dunhill did not have a material impact on our financial condition or results of operations.

Included in discontinued operations as presented in our consolidated statement of income are the following:

Year Ended December 31,	**2007**
Revenues	$ 12,431
Loss from discontinued operations	(3,060)
Income tax benefit	1,148
Net loss from discontinued operations	(1,786)
Loss on sale of discontinued operations	(126)

14. Related Party Transactions

Purchases from Carrier and its affiliates comprised 41% of all purchases made during 2009. At December 31, 2009, approximately $61,000 is payable to Carrier and its affiliates. Carrier Enterprise also sells HVAC/R products to Carrier and its affiliates; revenues in our consolidated statement of income for the year ended December 31, 2009 include $11,879 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 has entered into Transactional Services Agreements (“TSAs”) with Carrier to have certain business processes performed on its behalf including the use of business software applications and information technologies. A number of the services provided pursuant to the TSAs expired on December 31, 2009, with the remaining services expiring at various dates through 2010. The fees related to the TSAs were approximately $10,808 and are included in selling, general and administrative expenses in our consolidated statement of income for the year ended December 31, 2009. At December 31, 2009, $7,116 related to the TSAs is payable to Carrier and is included in accrued expenses and other current liabilities in our consolidated balance sheet.

A member of the Board of Directors is the Executive Chairman of Greenberg Traurig, P.A., which serves as our principal outside counsel and receives customary fees for legal services. During 2009, 2008 and 2007, this firm was paid $49, $128 and $78, respectively, for services performed.

15. Supplemental Cash Flow Information

Supplemental cash flow information was as follows:

Years Ended December 31,	**2009**	**2008**	**2007**
Interest paid	**$ 1,436**	$ 2,299	$ 4,557
Income taxes net of refunds	**$ 14,018**	$ 25,270	$ 32,329
Non-cash capital contribution of inventory by the noncontrolling interest	**$ 32,000**	—	—

16. Subsequent Events

On February 15, 2010, our Board of Directors approved an increase in the quarterly cash dividend to $0.52 per share from $0.48 per share.

We evaluated subsequent events after December 31, 2009 through February 26, 2010, the date our consolidated financial statements were issued.

WATSCO, INC. AND SUBSIDIARIES
SELECTED QUARTERLY FINANCIAL DATA
(UNAUDITED)

(In thousands, except per share data)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Year Ended December 31, 2009					
Revenues (1)	$ 291,343	$ 404,971	$ 741,895	$ 563,606	$ 2,001,815
Gross profit	74,234	100,985	172,009	133,604	480,832
Net (loss) income attributable to Watsco, Inc.	$ (1,172)	$ 16,282	$ 21,131	$ 7,073	$ 43,314
(Loss) earnings per share for Common and Class B common stock (2)(3):					
Basic	$ (0.07)	$ 0.57	$ 0.66	$ 0.21	$ 1.40
Diluted	$ (0.07)	$ 0.56	$ 0.66	$ 0.21	$ 1.40
Year Ended December 31, 2008					
Revenues (1)	$ 380,399	$ 509,822	$ 475,225	$ 334,791	$ 1,700,237
Gross profit	98,004	131,060	126,673	86,257	441,994
Net income attributable to Watsco, Inc.	$ 7,644	$ 26,050	$ 23,332	$ 3,343	$ 60,369
Earnings per share for Common and Class B common stock (2)(3):					
Basic	$ 0.26	$ 0.92	$ 0.82	$ 0.10	$ 2.14
Diluted	$ 0.26	$ 0.90	$ 0.81	$ 0.10	$ 2.09

(1) Sales of residential central air conditioners, heating equipment and related parts and supplies are seasonal. Demand related to the residential central air conditioning replacement market is highest in the second and third quarters with demand for heating equipment usually highest in the fourth quarter. Demand related to the new construction sectors throughout most of the markets is fairly even during the year except for dependence on housing completions and related weather and economic conditions.

(2) Quarterly earnings per Common and Class B common share are calculated on an individual basis and, because of rounding and changes in the weighted-average shares outstanding during the year, the summation of each quarter may not equal the amount calculated for the year as a whole.

(3) Effective January 1, 2009, we adopted the provisions of accounting guidance stating that non-vested share-based payment awards that contain non-forfeitable rights to dividends are considered participating securities and should be included in the computation of earnings per share pursuant to the two-class method for all periods presented.

WATSCO, INC. AND SUBSIDIARIES
INFORMATION ON COMMON STOCK

Our Common stock is traded on the New York Stock Exchange under the symbol WSO and our Class B common stock is traded on the NYSE Amex under the symbol WSOB. The following table indicates the high and low prices of our Common stock and Class B common stock, as reported by the New York Stock Exchange and NYSE Amex, respectively, and dividends paid per share for each quarter during the years ended December 31, 2009 and 2008. At February 26, 2010, excluding shareholders with stock in street name, there were 304 Common stock shareholders of record and 132 Class B common stock shareholders of record.

	Common		Class B		Cash Dividend	
	High	Low	High	Low	Common	Class B
Year Ended December 31, 2009:						
First quarter	$ 40.08	$ 30.97	$ 39.75	$ 30.99	$ .45	$ .45
Second quarter	54.01	34.55	53.00	34.54	.48	.48
Third quarter	56.82	44.56	56.25	44.46	.48	.48
Fourth quarter	53.71	48.98	53.25	48.93	.48	.48
Year Ended December 31, 2008:						
First quarter	$ 43.80	$ 31.44	$ 44.50	$ 31.15	$ .40	$ .40
Second quarter	47.47	40.27	47.82	40.30	.45	.45
Third quarter	58.49	40.86	55.55	41.42	.45	.45
Fourth quarter	49.00	30.62	49.07	30.85	.45	.45

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

The following table sets forth, at February 24, 2010, the Registrant's significant operating subsidiaries and other associated companies and their respective incorporation jurisdictions. The Registrant owns 100% of the voting securities of each of the subsidiaries listed below unless noted otherwise. There are no subsidiaries not listed in the table, which would, in the aggregate, be considered significant.

Active Subsidiaries	**State of Incorporation**
Air Systems Distributors LLC	Delaware
Atlantic Service & Supply LLC	Delaware
Baker Distributing Company LLC	Delaware
Carrier Enterprise, LLC*	Delaware
East Coast Metal Distributors LLC	Delaware
Gemaire Distributors LLC	Delaware
Heating & Cooling Supply LLC	California
Tradewinds Distributing Company LLC	Delaware
Watsco Holdings, Inc.	Delaware
Watsco Holdings II, Inc.	Delaware

* 60% owned

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Watsco, Inc.:

We consent to the incorporation by reference in the registration statements listed below of Watsco, Inc. of our report dated February 26, 2010, with respect to the consolidated balance sheet of Watsco, Inc. and subsidiaries as of December 31, 2009, and the related consolidated statements of income, cash flows and shareholders' equity for the year ended December 31, 2009.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2009 the Company changed its accounting and reporting for business combinations, noncontrolling interests, and earnings per share.

- Form S-3 (Registration No. 333-163678)
- Form S-8 (Nos. 333-159776, 333-149467, 333-126824, 333-86006, 333-39380, 333-82011, 333-80341, 333-10363, 33-51934, and 33-72798)

/s/ KPMG LLP

Miami, Florida
February 26, 2010
Certified Public Accountants

EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated February 27, 2009 (except for earnings per share amounts as discussed in Note 1 – Accounting Changes - Earnings per Share, as to which the date is February 26, 2010), with respect to the consolidated financial statements of Watsco, Inc. and subsidiaries which is incorporated by reference in the Annual Report of Watsco, Inc. on Form 10-K for the year ended December 31, 2009. We hereby consent to the incorporation by reference of said report in the following Registration Statements of Watsco, Inc. on Form S-3 (No. 333-163678) and Forms S-8 (No. 333-159776, No. 333-149467, No. 333-126824, No. 333-86006, No. 333-39380, No. 333-82011, No. 333-80341, No. 333-10363, No. 33-51934 and No. 33-72798).

/s/ GRANT THORNTON LLP

Miami, Florida
February 26, 2010

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 Annual Report on Form 10-K 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 this 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: February 26, 2010

/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 Annual Report on Form 10-K 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 this 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: February 26, 2010

/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 Annual Report on Form 10-K 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 this 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: February 26, 2010

/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 Annual Report of Watsco, Inc. (“Watsco”) on Form 10-K for the year ended December 31, 2009, 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
February 26, 2010

/s/ Barry S. Logan
Barry S. Logan
Senior Vice President
February 26, 2010

/s/ Ana M. Menendez
Ana M. Menendez
Chief Financial Officer
February 26, 2010

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version 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.

EXHIBIT II

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2010, FILED BY WATSCO, INC. WITH THE SEC ON AUGUST 6, 2010

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2010

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
Coconut Grove, 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 [X] 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 [X] 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 [X] 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 [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 28,073,588 shares of Common stock ($.50 par value), excluding treasury shares of 6,322,650 and 4,326,326 shares of Class B common stock ($.50 par value), excluding treasury shares of 48,263, were outstanding as of August 3, 2010.

WATSCO, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues	**$ 864,805**	$ 404,971	**$ 1,374,560**	$ 696,314
Cost of sales	**663,736**	303,986	**1,050,887**	521,095
Gross profit	**201,069**	100,985	**323,673**	175,219
Selling, general and administrative expenses	**130,150**	74,691	**243,889**	150,487
Operating income	**70,919**	26,294	**79,784**	24,732
Interest expense, net	**894**	344	**1,791**	672
Income before income taxes	**70,025**	25,950	**77,993**	24,060
Income taxes	**21,818**	9,668	**24,311**	8,950
Net income	**48,207**	16,282	**53,682**	15,110
Less: net income attributable to noncontrolling interest	**13,162**	-	**14,804**	-
Net income attributable to Watsco, Inc.	**$ 35,045**	$ 16,282	**$ 38,878**	$ 15,110
Earnings per share for Common and Class B common stock:				
Basic	**$ 1.08**	$ 0.57	**$ 1.20**	$ 0.53
Diluted	**$ 1.08**	$ 0.56	**$ 1.20**	$ 0.52

See accompanying notes to condensed consolidated unaudited financial statements.

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

	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 87,757**	$ 58,093
Accounts receivable, net	**385,532**	266,284
Inventories	**522,545**	410,078
Other current assets	**19,784**	20,843
Total current assets	**1,015,618**	755,298
Property and equipment, net	**31,361**	33,118
Goodwill	**304,154**	303,257
Intangible assets	**57,552**	58,566
Other assets	**8,883**	10,374
	$1,417,568	$1,160,613
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	**$ 153**	$ 151
Accounts payable	**344,842**	145,825
Accrued expenses and other current liabilities	**103,430**	77,950
Total current liabilities	**448,425**	223,926
Long-term obligations:		
Borrowings under revolving credit agreements	**20,000**	12,763
Other long-term obligations, net of current portion	**574**	666
Total long-term obligations	**20,574**	13,429
Deferred income taxes and other liabilities	**28,737**	28,450
Commitments and contingencies (Note 8)		
Watsco, Inc. shareholders' equity:		
Common stock, $.50 par value	**17,199**	17,105
Class B common stock, $.50 par value	**2,191**	2,150
Preferred stock, $.50 par value	**-**	-
Paid-in capital	**468,159**	461,563
Accumulated other comprehensive loss, net of tax	**(757)**	(821)
Retained earnings	**378,994**	372,454
Treasury stock, at cost	**(114,425)**	(114,425)
Total Watsco, Inc. shareholders’ equity	**751,361**	738,026
Noncontrolling interest	**168,471**	156,782
Total shareholders' equity	**919,832**	894,808
	$1,417,568	$1,160,613

See accompanying notes to condensed consolidated unaudited financial statements.

WATSCO, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF CASH FLOWS
Six Months Ended June 30, 2010 and 2009
(In thousands)

	2010	2009
Cash flows from operating activities:		
Net income	**$ 53,682**	$ 15,110
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**5,148**	3,413
Share-based compensation	**2,907**	2,659
Provision for doubtful accounts	**1,816**	3,245
Gain on sale of property and equipment	**(418)**	(52)
Excess tax benefits from share-based compensation	**(2,088)**	(3,711)
Other, net	**1,705**	1,384
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	**(120,494)**	(28,357)
Inventories	**(109,173)**	(15,205)
Accounts payable and other liabilities	**221,543**	48,174
Other, net	**2,202**	899
Net cash provided by operating activities	**56,830**	27,559
Cash flows from investing activities:		
Capital expenditures	**(3,839)**	(1,578)
Business acquisitions, net of cash acquired	**(2,406)**	-
Proceeds from sale of property and equipment	**2,073**	148
Net cash used in investing activities	**(4,172)**	(1,430)
Cash flows from financing activities:		
Dividends on Common and Class B common stock	**(32,338)**	(26,451)
Distributions to noncontrolling interest	**(3,115)**	-
Net repayments of other long-term obligations	**(90)**	(124)
Excess tax benefits from share-based compensation	**2,088**	3,711
Net proceeds from issuances of common stock	**3,224**	5,847
Net proceeds under revolving credit agreements	**7,237**	-
Costs related to amendment of revolving credit agreement	-	(5,253)
Net cash used in financing activities	**(22,994)**	(22,270)
Net increase in cash and cash equivalents	**29,664**	3,859
Cash and cash equivalents at beginning of period	**58,093**	41,444
Cash and cash equivalents at end of period	**$ 87,757**	$ 45,303

See accompanying notes to condensed consolidated unaudited financial statements.

WATSCO, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS
June 30, 2010
(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 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 June 30, 2010 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 2009 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 effective July 1, 2009, include the accounts of a joint venture in which Watsco maintains a 60% controlling interest. See Note 6, "Acquisitions." All significant intercompany balances and transactions have been eliminated.

The results of operations for the quarter and six months ended June 30, 2010 are not necessarily indicative of the results to be expected for the year ending December 31, 2010. 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 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 during the reporting period. Significant estimates include valuation reserves for accounts receivable, inventory and income taxes, reserves related to self-insurance programs and valuation of goodwill and indefinite lived intangible assets. While we believe that these estimates are reasonable, actual results could differ from such estimates.

Recently Adopted Accounting Standards

Transfers of Financial Assets

On January 1, 2010, we adopted a new accounting standard issued by the Financial Accounting Standards Board ("FASB") that addresses the accounting and disclosure requirements for transfers of financial assets. The adoption of this guidance did not have a material impact on our condensed consolidated unaudited financial statements.

Variable Interest Entities

On January 1, 2010, we adopted accounting guidance issued by the FASB that amended the consolidation principles for variable interest entities ("VIEs") by requiring consolidation of VIEs based on whether an entity has the power to direct the activities that most significantly impact the VIEs economic performance and shares in the significant risks and rewards of the entity. The adoption of this guidance did not have a material impact on our condensed consolidated unaudited financial statements.

Recently Issued Accounting Standards

Amendments to Revenue Arrangements with Multiple Deliverables

In October 2009, the FASB issued accounting guidance that amends the criteria for allocating a contract's consideration to individual services or products in multiple deliverable arrangements. This guidance is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We will adopt this guidance beginning on January 1, 2011 and do not expect a material impact on our condensed consolidated unaudited financial statements.

2. EARNINGS PER SHARE

Earnings per share is computed using the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. Shares of our non-vested (restricted) stock are considered participating securities because these awards contain a non-forfeitable right to dividends irrespective of whether the awards ultimately vest. Under the two-class method, earnings per common share for our Common and Class B common stock is computed by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted-average number of shares of Common stock and Class B common stock outstanding for the period. In applying the two-class method, undistributed earnings are allocated to Common stock, Class B common stock and participating securities based on the weighted-average shares outstanding during the period.

Diluted earnings per share of our Common stock assumes the conversion of all of our Class B common stock (2,866,881 and 2,575,364 shares as of June 30, 2010 and 2009, respectively) into Common stock as of the beginning of the period and adjusts for the dilutive effects of outstanding stock options using the treasury stock method.

The following table presents the calculation of basic and diluted earnings per common share for our Common and Class B common stock for the quarters and six months ended June 30, 2010 and 2009:

	Quarter Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Basic Earnings per Share:				
Net income attributable to Watsco, Inc. shareholders	**$35,045**	$16,282	**$38,878**	$15,110
Less: distributed and undistributed earnings allocated to non-vested (restricted) common stock	**(2,100)**	(992)	**(2,342)**	(944)
Earnings allocated to Watsco, Inc. shareholders	**$32,945**	$15,290	**$36,536**	$14,166
Allocation of earnings for Basic:				
Common stock	**$29,844**	$13,825	**$33,092**	$12,803
Class B common stock	**3,101**	1,465	**3,444**	1,363
	$32,945	$15,290	**$36,536**	$14,166
Diluted Earnings per Share:				
Net income attributable to Watsco, Inc. shareholders	**$35,045**	$16,282	**$38,878**	$15,110
Less: distributed and undistributed earnings allocated to non-vested (restricted) common stock	**(2,097)**	(990)	**(2,341)**	(953)
Earnings allocated to Watsco, Inc. shareholders	**$32,948**	$15,292	**$36,537**	$14,157

The diluted earnings per share calculation assumes the conversion of all of our Class B common stock into Common stock as of the beginning of the period; therefore, no allocation of earnings to Class B common stock is required.

Weighted-average Common and Class B common shares outstanding for basic earnings per share	**30,461,079**	26,876,952	**30,413,994**	26,775,500
Effect of dilutive stock options	**108,445**	373,264	**123,142**	381,348
Weighted-average Common and Class B common shares outstanding for diluted earnings per share	**30,569,524**	27,250,216	**30,537,136**	27,156,848

Diluted earnings per share excluded 84,000 and 227,681 shares for the quarters ended June 30, 2010 and 2009, respectively, and 117,561 and 263,152 shares for the six months ended June 30, 2010 and 2009, respectively, related to stock options with an exercise price per share greater than the average market value, resulting in an anti-dilutive effect on diluted earnings per share.

3. DERIVATIVE FINANCIAL INSTRUMENTS

Periodically, we enter into interest rate swap agreements to reduce our exposure to market risk from changing interest rates under our revolving credit agreements. Under the terms of the swap agreements, we agree to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to the notional principal amount. Any differences paid or received on our interest rate swap agreements are recognized as adjustments to interest expense over the life of each swap, thereby adjusting the effective interest rate on the underlying obligation. Financial instruments are not held or issued for trading purposes. In order to obtain hedge accounting treatment, any derivatives used for hedging purposes must be designated as, and effective as, a hedge of an identified risk exposure at the inception of the contract. Changes in the fair value of the derivative contract must be highly correlated with changes in the fair value of the underlying hedged item at inception of the hedge and over the life of the hedge contract. Accordingly, we record all derivative instruments as either assets or liabilities on the condensed consolidated balance sheets at their respective fair values. We record the change in the fair value of a derivative instrument designated as a cash flow hedge in other comprehensive income to the extent the derivative is effective, and recognize the change in the statement of income when the hedged item affects earnings. Our interest rate hedge is designated as a cash flow hedge.

At both June 30, 2010 and December 31, 2009, we had one interest rate swap agreement was in effect with a notional value of $10,000, maturing in October 2011. The swap agreement exchanges the variable rate of 30-day LIBOR to a fixed interest rate of 5.07%. During the quarter and six months ended June 30, 2010 and 2009, the hedging relationship was determined to be highly effective in achieving offsetting changes in cash flows.

We were party to an interest rate swap agreement with a notional amount of $10,000, which matured on October 31, 2009, that was designated as a cash flow hedge and effectively exchanged the variable rate of 30-day LIBOR to a fixed interest rate of 5.04%. During the quarter and six months ended June 30, 2009, the hedging relationship was determined to be highly effective in achieving offsetting changes in cash flows.

The negative fair value of the derivative financial instrument was $602 and $710 at June 30, 2010 and December 31, 2009, respectively, and is included, net of accrued interest, in deferred income taxes and other liabilities in the condensed consolidated balance sheets. See Note 4, “Fair Value Measurements.” At June 30, 2010 and December 31, 2009, $364, net of deferred tax benefits of $223 and $432, net of deferred tax benefits of $262, respectively, was included in accumulated other comprehensive loss (“OCL”) associated with the cash flow hedge.

The net change in OCL for the quarters and six months ended June 30, 2010 and 2009, reflected the reclassification of $75, net of income tax benefit of $46, $148, net of income tax benefit of $88, $150, net of income tax benefit of $92 and $293, net of income tax benefit of $173, respectively, of unrealized losses from accumulated OCL to current period earnings (recorded in interest expense, net in the condensed consolidated unaudited statements of income). The net unrealized loss recorded in accumulated OCL will be reclassified to earnings on a monthly basis as interest payments occur. We estimate that approximately $450 in unrealized losses on the derivative instrument accumulated in OCL are expected to be reclassified to earnings during the next twelve months using a current 30-day LIBOR-based average receive rate (0.55% at June 30, 2010). See Note 5, “Comprehensive Income.”

4. FAIR VALUE MEASUREMENTS

We carry various assets and liabilities at fair value in the condensed consolidated balance sheets. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. Fair value measurements are classified based on the following fair value hierarchy:

Level 1 Quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Observable inputs other than Level 1 prices such as quoted prices in active markets for similar assets or liabilities; quoted prices in markets that are not active; or model-driven valuations or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs for the asset or liability. These inputs reflect our own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The following table presents our assets and liabilities that are measured at fair value on a recurring basis and the levels of inputs used to measure fair value:

		Fair Value Measurements at June 30, 2010 Using		
Description	Fair Value at June 30, 2010	Level 1	Level 2	Level 3
Assets:				
Available-for-sale securities	**$95**	**$95**	-	-
Liabilities:				
Derivative financial instrument	**$602**	-	**$602**	-

		Fair Value Measurements at December 31, 2009 Using		
Description	Fair Value at December 31, 2009	Level 1	Level 2	Level 3
Assets:				
Available-for-sale securities	$104	$104	-	-
Liabilities:				
Derivative financial instrument	$710	-	$710	-

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 quoted prices in active markets and are therefore classified within Level 1 of the fair value hierarchy.

Derivative financial instrument – the derivative is a pay-variable, receive fixed interest rate swap based on 30-day LIBOR. Fair value is based on model-derived valuations using the respective LIBOR rate, which is observed at quoted intervals for the full term of the swap and incorporates adjustments to appropriately reflect our nonperformance risk and the counterparty's nonperformance risk. Therefore, the derivative is classified within Level 2 of the fair value hierarchy. See Note 3, "Derivative Financial Instruments," for further information.

5. COMPREHENSIVE INCOME

Comprehensive income consists of net income and changes in the unrealized losses on available-for-sale securities and the effective portion of cash flow hedges as further discussed in Note 3, "Derivative Financial Instruments." The components of comprehensive income for the quarters and six months ended June 30, 2010 and 2009, respectively, are as follows:

	Quarter Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income	**$48,207**	$16,282	**$53,682**	$15,110
Changes in unrealized losses on derivative instruments, net of income tax expense of $29, $70, $40 and $115, respectively	**47**	114	**68**	204
Changes in unrealized losses on available-for-sale securities, net of income tax (expense) benefit of $10, $(16), $5 and $31, respectively	**(14)**	27	**(4)**	(44)
Comprehensive income	**48,240**	16,423	**53,746**	15,270
Less: comprehensive income attributable to noncontrolling interest	**13,162**	-	**14,804**	-
Comprehensive income attributable to Watsco, Inc.	**$35,078**	$16,423	**$38,942**	$15,270

6. ACQUISITIONS

On July 1, 2009, we completed the formation of a joint venture with Carrier Corporation ("Carrier") to distribute Carrier, Bryant and Payne products throughout the U.S. Sunbelt, Latin America and the Caribbean. The joint venture, Carrier Enterprise, LLC ("Carrier Enterprise"), operates 110 locations in 20 states and Puerto Rico and serves over 19,000 air conditioning and heating contractors. In the formation of the joint venture, Carrier contributed 95 locations in the U.S. Sunbelt and Puerto Rico and the export division located in Miami, Florida and we contributed 15 locations that distributed Carrier, Bryant and Payne products. The results of operations of the new Carrier Enterprise locations have been included in the condensed consolidated unaudited financial statements from the date of acquisition.

The unaudited pro forma financial information combining our results of operations with the operations of Carrier Enterprise as if the joint venture had been consummated on January 1, 2009 is as follows:

	Quarter Ended June 30, 2009	**Six Months Ended June 30, 2009**
Revenues	$740,189	$1,256,818
Net income	27,947	23,349
Less: net income attributable to noncontrolling interest	6,600	5,084
Net income attributable to Watsco, Inc.	$21,347	$18,265
Diluted earnings per share for Common and Class B common shares	$0.67	$0.55

This unaudited pro forma financial information is presented for informational purposes only. The unaudited pro forma financial information from the beginning of the period presented until the acquisition date includes adjustments to record income taxes related to our portion of Carrier Enterprise's income, amortization of bank fees paid to amend our existing $300,000 revolving credit agreement entered into upon the consummation of the joint venture, amortization of bank fees paid by Carrier Enterprise to enter into a separate secured three-year $75,000 revolving credit agreement and amortization related to identified intangible assets with finite lives and does not include adjustments to remove certain corporate expenses of Carrier Enterprise, which may not be incurred in future periods, adjustments for depreciation, or synergies (primarily related to improved gross profit and lower general and administrative expenses) that may be realized subsequent to the acquisition date. The unaudited pro forma financial information is not necessarily indicative of our future results of operations or what the results of operations would have been had we owned and operated Carrier Enterprise as of the beginning of the period presented.

In April 2010, one of our subsidiaries acquired certain assets and assumed certain liabilities of a wholesale distributor of air conditioning and heating products operating from two locations in Tennessee. The purchase price of the acquisition included a cash payment of approximately $2,400.

The results of operations of these acquired locations have been included in the condensed consolidated unaudited financial statements from their respective dates of acquisition. The pro forma effect of the April 2010 acquisition was not deemed significant to the condensed consolidated unaudited financial statements.

7. SHAREHOLDERS' EQUITY

Dividends Declared

Our Board of Directors declared cash dividends on Common and Class B common stock of $0.52 per share, $0.48 per share, $1.00 per share and $0.93 per share for the quarters and six months ended June 30, 2010 and 2009, respectively. On July 1, 2010, our Board of Directors declared a regular quarterly cash dividend of $0.52 per share of Common and Class B common stock that was paid on July 30, 2010 to shareholders of record as of July 15, 2010.

Non-Vested (Restricted) Stock

No shares of non-vested (restricted) stock were granted during the quarter ended June 30, 2010. During the six months ended June 30, 2010, we granted 132,500 shares of non-vested (restricted) stock. No shares of non-vested (restricted) stock were granted during the quarter or six months ended June 30, 2009. During the quarters ended June 30, 2010 and 2009, 258 shares of Common stock with an aggregate market value of $16 and 601 shares of Common stock with an aggregate market value of $24, respectively, were delivered as payment in lieu of cash to satisfy tax withholding obligations in connection with the vesting of non-vested (restricted) stock. During the six months ended June 30, 2010 and 2009, 5,111 shares of Common stock with an aggregate market value of $293 and 601 shares of Common stock with an aggregate market value of $24, respectively, were delivered 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 June 30, 2010 and 2009, 13,000 and 152,550, respectively, of stock options were exercised for Common stock. During the six months ended June 30, 2010 and 2009, 174,850 and 420,050, respectively, of stock options were exercised for Common and Class B common stock. Cash received from Common and Class B common stock issued as a result of stock options exercised during the quarters and six months ended June 30, 2010 and 2009, was $366, $3,226, $2,808 and $5,422, respectively. During the six months ended June 30, 2010 and 2009, 48,938 shares of Class B common stock with an aggregate market value of $2,814 and 91,942 shares of common stock with an aggregate market value of $3,333, respectively, were delivered 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 June 30, 2010 and 2009, 3,864 and 6,918, shares of Common stock were issued under our employee stock purchase plan, respectively, for which we received net proceeds of $215 and $242, respectively. During the six months ended June 30, 2010 and 2009, 8,118 and 12,112 shares of Common stock were issued under our employee stock purchase plan, respectively, for which we received net proceeds of $416 and $425, respectively.

Noncontrolling Interest

We have a 60% controlling interest in Carrier Enterprise and Carrier has a 40% noncontrolling interest. The following table reconciles shareholders' equity attributable to the noncontrolling interest:

Fair value of noncontrolling interest at December 31, 2009	$ 156,782
Net income attributable to noncontrolling interest	14,804
Distribution to noncontrolling interest	(3,115)
Noncontrolling interest at June 30, 2010	**$ 168,471**

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 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 in which we or our subsidiaries are involved will materially affect 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 amount of $9,249 and $7,110 at June 30, 2010 and December 31, 2009, 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 54% of all purchases made for the quarter and six months ended June 30, 2010. At June 30, 2010, approximately $157,000 is payable to Carrier and its affiliates. Carrier Enterprise also sells HVAC/R products to Carrier and its affiliates. Revenues in our condensed consolidated unaudited statement of income for the quarter and six months ended June 30, 2010 include $14,649 and $18,048, 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 has entered into Transactional Services Agreements (“TSAs”) with Carrier to have certain business processes performed on its behalf including processes involving the use of business software applications and information technologies. A number of the services provided pursuant to the TSAs expired on December 31, 2009, with the remaining services expiring at various dates throughout 2010. The fees related to the TSAs were approximately $888 and $2,227 and are included in selling, general and administrative expenses in our condensed consolidated unaudited statement of income for the quarter and six months ended June 30, 2010, respectively. At June 30, 2010 and December 31, 2009, $1,722 and $7,116, respectively, related to the TSAs is payable to Carrier and is included in accrued expenses and other current liabilities in our condensed consolidated balance sheets.

The final purchase price of Carrier Enterprise was subject to an adjustment pursuant to the Purchase and Contribution Agreement dated May 3, 2009, as amended June 29, 2009, of which $1,418 was payable to Carrier at June 30, 2010 and December 31, 2009. Such amount is included in our condensed consolidated balance sheets.

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

Safe Harbor Statement

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, (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:

- 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; 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, that the information will have the expected consequences to or effects on our business or operations. For additional information identifying some other important factors which may affect our operations and could cause actual results to vary materially from those anticipated in the forward-looking statements, see our Commission filings, including but not limited to, the discussion included in the Risk Factors section of our 2009 Annual Report on Form 10-K 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.

The following information should be read in conjunction with the condensed consolidated unaudited financial statements included under Item 1, "Condensed Consolidated Unaudited Financial Statements" of this Quarterly Report on Form 10-Q.

Company Overview

Watsco, Inc. and its subsidiaries (collectively, "Watsco," which may be referred to as *we, us* or *our*) was incorporated 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. On July 1, 2009, we completed the formation of a joint venture with Carrier Corporation ("Carrier"), to distribute Carrier, Bryant and Payne products throughout the U.S. Sunbelt, Latin America and the Caribbean. In the formation of the joint venture, Carrier Enterprise, LLC ("Carrier Enterprise"), Carrier contributed 95 locations in the U.S. Sunbelt and Puerto Rico and the export division located in Miami, Florida and we contributed 15 locations that currently distribute Carrier, Bryant and Payne products. At June 30, 2010, we operated from 505 locations in 36 states.

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 tend to be variable in nature 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 the summer and winter selling seasons. Demand related to the residential central air conditioning replacement market is 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.

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 2009 Annual Report on Form 10-K as filed on February 26, 2010. We believe that there have been no significant changes during the quarter and six months ended June 30, 2010 to the critical accounting policies disclosed in our 2009 Annual Report on Form 10-K.

Recent Accounting Pronouncements

Refer to Note 1 to the condensed consolidated unaudited financial statements for a discussion of recently issued accounting pronouncements.

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 six months ended June 30, 2010 and 2009:

	Quarter Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues	**100.0%**	100.0%	**100.0%**	100.0%
Cost of sales	**76.7**	75.1	**76.5**	74.8
Gross profit	**23.3**	24.9	**23.5**	25.2
Selling, general and administrative expenses	**15.1**	18.4	**17.7**	21.6
Operating income	**8.2**	6.5	**5.8**	3.6
Interest expense, net	**0.1**	0.1	**0.1**	0.1
Income before income taxes	**8.1**	6.4	**5.7**	3.5
Income taxes	**2.5**	2.4	**1.8**	1.3
Net income	**5.6**	4.0	**3.9**	2.2
Less: net income attributable to noncontrolling interest	**1.5**	**-**	**1.1**	**-**
Net income attributable to Watsco, Inc.	**4.1%**	4.0%	**2.8%**	2.2%

The following narratives include the results of operations for businesses acquired during 2009 and 2010. The results of operations for these acquisitions have been included in the condensed consolidated unaudited statements of income beginning on their respective dates of acquisition. 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 prior twelve months unless they are within close geographical proximity to existing locations (95 locations excluded at June 30, 2010). The table below summarizes the changes in our locations during the quarter and six months ended June 30, 2010:

	Number of Locations
December 31, 2009	505
Closed	(1)
March 31, 2010	504
Acquired	2
Opened	3
Closed	(4)
June 30, 2010	**505**

Second Quarter 2010 Compared to Second Quarter 2009

Revenues

Revenues for the quarter ended June 30, 2010 increased $459.8 million, or 114%, compared to the same period in 2009, including $399.6 million attributable to the new Carrier Enterprise locations and $9.3 million from other locations acquired and opened during the last twelve months offset by $3.5 million from closed locations. On a same-store basis, revenues increased $54.4 million, or 14%, over the same period in 2009. Revenues reflect a 25% increase in sales of HVAC equipment, a 3% increase in sales of other HVAC products and a 5% increase in sales of refrigeration products. Sales of HVAC equipment benefited from a combination of strong growth in unit sales and an improved sales mix of higher-efficiency replacement air conditioning and heating systems, which sell at higher unit prices.

Gross Profit

Gross profit for the quarter ended June 30, 2010 increased $100.1 million, or 99%, compared to the same period in 2009, primarily as a result of increased revenues. Gross profit margin for the quarter ended June 30, 2010 declined 160 basis-points to 23.3% versus 24.9% for the same period in 2009, reflecting the impact of lower selling margins for Carrier Enterprise. On a same-store basis, gross profit margin declined 30 basis-points to 24.7% versus 25.0% primarily due to a shift in sales mix toward HVAC equipment, which generates a lower gross profit margin than non-equipment products during the quarter ended June 30, 2010.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the quarter ended June 30, 2010 increased $55.5 million, or 74%, compared to the same period in 2009 primarily due to Carrier Enterprise. Selling, general and administrative expenses as a percent of revenues for the quarter ended June 30, 2010 decreased to 15.1% from 18.4% for the same period in 2009. On a same-store basis, selling, general, and administrative expenses increased 1% primarily due to an increase in selling expenses from higher revenues, partially offset by on-going profit enhancement initiatives. Closed branches also contributed selling, general and administrative expenses savings of $0.8 million during the quarter ended June 30, 2010.

Interest Expense, Net

Net interest expense for the quarter ended June 30, 2010 increased $0.6 million, or 160%, compared to the same period in 2009, primarily as a result of the additional amortization of bank fees (included in interest expense, net) related to the amendment of our existing revolving credit agreement required to consummate the joint venture and the establishment of the Carrier Enterprise revolving credit agreement.

Income Taxes

Income taxes of $21.8 million consist of the income taxes attributable to Watsco's wholly-owned operations and 60% of income taxes attributable to Carrier Enterprise, which is taxed as a partnership for income tax purposes. The effective income tax rate attributable to Watsco, Inc. increased to 38.0% from 37.3% for the quarters ended June 30, 2010 and 2009. The increase is primarily due to certain non-recurring tax benefits and credits realized in 2009 and a higher state effective tax rate associated with Carrier Enterprise in 2010.

Net Income Attributable to Watsco, Inc.

Net income attributable to Watsco for the quarter ended June 30, 2010 increased $18.8 million, or 115%, compared to the same period in 2009. The increase was primarily driven by higher revenues, expanded profit margins and lower levels of selling, general and administrative expense as a percent of revenues as discussed above.

Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009

Revenues

Revenues for the six months ended June 30, 2010 increased $678.2 million, or 97%, compared to the same period in 2009, including $625.4 million attributable to the new Carrier Enterprise locations and $13.1 million from other locations acquired and opened during the last twelve months offset by $6.2 million from closed locations. On a same-store basis, revenues increased $45.9 million, or 7%, over the same period in 2009. Revenues reflect a 17% increase in sales of HVAC equipment, a 3% decrease in sales of other HVAC products and a 3% increase in sales of refrigeration products. Sales of HVAC equipment benefited from a combination of strong growth in unit sales and an improved sales mix of higher-efficiency replacement air conditioning and heating systems, which sell at higher unit prices.

Gross Profit

Gross profit for the six months ended June 30, 2010 increased $148.5 million, or 85%, compared to the same period in 2009, primarily as a result of increased revenues. Gross profit margin for the six months ended June 30, 2010 declined 170 basis-points to 23.5% versus 25.2% for the same period in 2009, reflecting the impact of lower selling margins for Carrier Enterprise. On a same-store basis, gross profit margin improved 10 basis-points to 25.3% versus 25.2% primarily due to a shift in sales mix toward HVAC equipment, which generates a lower gross profit margin than non-equipment products during the six months ended June 30, 2010.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the six months ended June 30, 2010 increased $93.4 million, or 62%, compared to the same period in 2009 primarily due to Carrier Enterprise. Selling, general and administrative expenses as a percent of revenues for the six months ended June 30, 2010 decreased to 17.7% from 21.6% for the same period in 2009. On a same-store basis, selling, general, and administrative expenses decreased 4% primarily due to lower bad debt expense and on-going profit enhancement initiatives. Closed branches also contributed selling, general and administrative expenses savings of $1.6 million during the six months ended June 30, 2010.

Interest Expense, Net

Net interest expense for the six months ended June 30, 2010 increased $1.1 million, or 167%, compared to the same period in 2009, primarily as a result of the additional amortization of bank fees (included in interest expense, net) related to the amendment of our existing revolving credit agreement required to consummate the joint venture and the establishment of the Carrier Enterprise revolving credit agreement.

Income Taxes

Income taxes of $24.3 million consist of the income taxes attributable to Watsco's wholly-owned operations and 60% of income taxes attributable to Carrier Enterprise, which is taxed as a partnership for income tax purposes. The effective income tax rate attributable to Watsco, Inc. increased to 38.0% from 37.2% for the six months ended June 30, 2010 and 2009. The increase is primarily due to certain non-recurring tax benefits and credits realized in 2009 and a higher state effective tax rate associated with Carrier Enterprise in 2010.

Net Income Attributable to Watsco, Inc.

Net income attributable to Watsco for the six months ended June 30, 2010 increased $23.8 million, or 157%, compared to the same period in 2009. The increase was primarily driven by higher revenues, expanded profit margins and lower levels of selling, general and administrative expenses as a percent of revenues as discussed above.

Liquidity and Capital Resources

We assess our liquidity in terms of our ability to generate cash to execute our business strategy and fund operating and investing activities, taking into consideration the seasonal demand 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 available bank lines 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.

We rely on cash flows from operations and our lines of credit to fund seasonal working capital needs, financial commitments and short-term liquidity needs, including funds necessary for business acquisitions. Future disruptions in the capital and credit markets, such as those experienced in 2008 could adversely affect our ability to draw on our lines of credit. Our access to funds under the lines of credit is dependent on the ability of the banks to meet their funding commitments. Disruptions in capital and credit markets also affected the determination of interest rates for borrowers, particularly rates based on LIBOR, as are our lines of credit. Future disruptions in these markets and their effect on interest rates could result in increased borrowing costs under our lines of credit. We believe that, at present, cash flows from operations combined with those available under our lines of credit are sufficient to satisfy our current liquidity needs, including our anticipated dividend payments and capital expenditures.

Cash Flows

The following table summarizes our cash flow activity for the six months ended June 30, 2010 and 2009:

	2010	2009	Change
Operating activities	**$ 56.8**	$ 27.6	$ 29.2
Investing activities	**$ (4.2)**	$ (1.4)	$ (2.8)
Financing activities	**$ (23.0)**	$ (22.3)	$ (0.7)

<u>Operating Activities</u>

The increase in net cash provided by operating activities was principally attributable to higher net income and to changes in operating assets and liabilities, which were primarily composed of higher levels of accounts payable and other liabilities, partially offset by higher inventories attributable to the 95 locations added by Carrier Enterprise and a stronger seasonal buildup of inventory in 2010 and higher accounts receivable driven by increased sales volume in 2010 versus 2009.

<u>Investing Activities</u>

The increase in net cash used in investing activities is primarily due to a business acquired in 2010 for $2.4 million and an increase in capital expenditures of $2.3 million partially offset by $1.9 million of higher proceeds from the sale of property and equipment in 2010 as compared to the 2009 period.

Financing Activities

The increase in net cash used in financing activities is primarily attributable to an increase of $5.9 million in dividends paid, a $3.1 million distribution made to the noncontrolling interest, $2.6 million lower net proceeds from issuances of common stock and a $1.6 million decrease in excess tax benefits resulting from share-based compensation in 2010, partially offset by $7.2 million net borrowings under our revolving credit agreements in 2010 and $5.3 million in fees paid in 2009 to amend our revolving credit agreement.

Working capital increased $35.8 million to $567.2 million at June 30, 2010 from $531.4 million at December 31, 2009, reflecting higher cash on hand resulting from improved collections as well as due to the aforementioned increase in inventory levels and accounts receivable; partially offset by higher levels of accounts payable and accrued expenses.

Revolving Credit Agreements

We maintain a bank-syndicated, unsecured revolving credit agreement that provides for borrowings of up to $300.0 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 facility matures in August 2012. At June 30, 2010 and December 31, 2009, $20.0 million and $12.8 million were outstanding under this 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 limits capital expenditures, dividends and share repurchases in addition to other restrictions. We believe we were in compliance with all covenants and financial ratios at June 30, 2010.

Carrier Enterprise maintains a separate secured revolving credit agreement that provides for borrowings of up to $75.0 million. Borrowings under the credit facility are used by Carrier Enterprise for general corporate purposes, including working capital and permitted acquisitions. The credit facility is secured by substantially all tangible and intangible assets of Carrier Enterprise. The credit facility matures in July 2012. At December 31, 2009, $0.01 million was outstanding under this credit facility. At June 30, 2010, no borrowings were outstanding under this credit facility.

The revolving credit agreement contains customary affirmative and negative covenants and warranties, including compliance with a monthly borrowing base certificate with advance rates on accounts receivable and inventory, two financial covenants with respect to Carrier Enterprise’s leverage and interest coverage ratios and limits the level of capital expenditures in addition to other restrictions. We believe Carrier Enterprise was in compliance with all covenants and financial ratios at June 30, 2010.

Company Share Repurchase Program

In September 1999, our Board of Directors authorized the repurchase, at management’s discretion, of 7.5 million 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. In aggregate, 6.4 million shares of Common stock and Class B common stock have been repurchased at a cost of $114.4 million since the inception of the program. The remaining 1.1 million shares authorized for repurchase are subject to certain restrictions included in our revolving credit agreement.

Common Stock Dividends

Cash dividends of $1.00 per share and $0.93 per share of Common stock and Class B common stock were paid during the six months ended June 30, 2010 and 2009, respectively. On July 1, 2010, our Board of Directors declared a regular quarterly cash dividend of $0.52 per share of Common and Class B common stock that was paid on July 30, 2010 to shareholders of record as of July 15, 2010. 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 profitability, financial condition, cash requirements, and restrictions under our revolving credit agreement, future prospects and other factors deemed relevant by our Board of Directors.

Capital Resources

We believe we have adequate availability of capital from operations and our current credit facilities to fund working capital requirements and support the development of our short-term and long-term operating strategies. As of June 30, 2010, we had cash and cash equivalents on hand and additional borrowing capacity (subject to certain restrictions) under our revolving credit agreements to fund present operations and anticipated growth, including expansion in our current and targeted market areas. Potential acquisitions are continually evaluated and discussions are conducted with a number of acquisition candidates. Should suitable acquisition opportunities or working capital needs arise that would require additional financing, we believe our financial position and earnings history provide a sufficient base for obtaining additional financing resources at competitive rates and terms or gives us the ability to raise funds through the issuance of equity securities.

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 2009 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 Securities and Exchange Commission filings.

Our management, with the participation of our CEO, SVP and CFO, has 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 have 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 June 30, 2010, 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 Securities and Exchange Commission, we have not yet assessed the internal control over financial reporting of the 95 locations added by Carrier Enterprise on July 1, 2009, which represents approximately 45% of our total consolidated assets at June 30, 2010 and approximately 45% of revenues for the six months ended June 30, 2010. From the acquisition date to June 30, 2010, the processes and systems of Carrier Enterprise were discrete and did not impact 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 impact to our financial condition or results of operations.

ITEM 1A. RISK FACTORS

Information about risk factors for the quarter ended June 30, 2010, do not differ materially from that set forth in Part I, Item 1A, of our 2009 Annual Report on Form 10-K.

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

Dividends

Cash dividends of $0.52 per share, $0.48 per share, $1.00 per share and $0.93 per share of Common stock and Class B common stock were paid during the quarters and six months ended June 30, 2010 and 2009, respectively.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

31.1 #	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-15(e) and 15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 #	Certification of 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.PPR *	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, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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)

August 6, 2010

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

EXHIBIT INDEX

Exhibit No.	Exhibit Description
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.
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* 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, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, 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: August 6, 2010

/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: August 6, 2010

/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: August 6, 2010

/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 six months ended June 30, 2010 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
August 6, 2010

/s/ Barry S. Logan
Barry S. Logan
Senior Vice President
August 6, 2010

/s/ Ana M. Menendez
Ana M. Menendez
Chief Financial Officer
August 6, 2010

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.

EXHIBIT III

**DEFINITIVE PROXY STATEMENT ON SCHEDULE 14A,
FILED BY WATSCO, INC. WITH THE SEC ON APRIL 30, 2010**

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

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934**

Filed by the Registrant ☑
Filed by a Party other than the Registrant ☐

Check the appropriate box:

☐ Preliminary Proxy Statement
☐ Confidential, for Use of the Commission Only (as permitted by Rule 14a−6(e)(2))
☑ Definitive Proxy Statement
☐ Definitive Additional Materials
☐ Soliciting Material Pursuant to § 240.14a−12

Watsco, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

☑ No fee required.

☐ Fee computed on table below per Exchange Act Rules 14a−6(i)(1) and 0−11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0−11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

☐ Fee paid previously with preliminary materials:

☐ Check box if any part of the fee is offset as provided by Exchange Act Rule 0−11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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Watsco, Inc.
2665 South Bayshore Drive, Suite 901
Coconut Grove, Florida 33133

NOTICE OF THE 2010 ANNUAL MEETING OF SHAREHOLDERS

Date:	Friday, June 4, 2010
Time:	9:30 a.m., Eastern Daylight Time
Place:	University Club 1 West 54th Street New York, New York 10019
Purpose:	1. For the holders of our Common stock to elect one director and for the holders of our Class B common stock to elect two directors. 2. To consider any other business that is properly presented at the meeting.
Who May Vote:	You may vote if you were a record owner of our Common stock (NYSE: WSO) and/or our Class B common stock (NYSE Amex: WSOB) at the close of business on April 9, 2010.
Proxy Voting:	Whether or not you expect to be present, please sign and date the enclosed proxy card and return it in the enclosed pre−addressed envelope as promptly as possible. No postage is required if mailed in the United States.

By order of the Board of Directors,

BARRY S. LOGAN
Senior Vice President and Secretary

April 30, 2010

This is an important meeting, and all shareholders of record as of April 9, 2010 are invited to attend the meeting in person. Those shareholders who are unable to attend are respectfully urged to execute and return the enclosed proxy card as promptly as possible in the enclosed return envelope. No postage is required if mailed in the United States. Shareholders who execute a proxy card may nevertheless attend the meeting, revoke their proxy and vote their shares in person.

NOTICE: This is the first year that brokers are not permitted to vote on the election of directors without instructions from the beneficial owner. Therefore, if your shares are held through a broker, bank or other nominee, your vote is especially important this year. Unless you vote your shares in one of the ways described in this proxy statement, your shares will not be voted in the election of directors.

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* To be voted on at the meeting

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WATSCO, INC.
2665 South Bayshore Drive, Suite 901
Coconut Grove, Florida 33133

PROXY STATEMENT

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting to Be Held on June 4, 2010

The Company's 2009 Annual Report and this proxy statement are available at: www.watsco.com

You are receiving this proxy statement because, as of April 9, 2010, you owned shares of Watsco, Inc. common stock that entitle you to vote at our 2010 annual meeting of shareholders. Our Board of Directors, which we refer to as the Board, is soliciting proxies from shareholders who wish to vote at the meeting. By using a proxy, you can vote even if you do not attend the meeting. This proxy statement describes the matters on which you are being asked to vote and provides information on those matters so that you can make an informed decision.

This proxy statement and the enclosed form of proxy are first being mailed to holders of our Common stock and our Class B common stock on or about April 30, 2010. Shareholders should review the information contained in this proxy statement together with our 2009 Annual Report which accompanies this proxy statement.

In this proxy statement, we refer to Watsco, Inc. as *Watsco*, *we*, *us*, *our* and *the Company*.

Our Internet website and the information contained therein, other than material expressly referred to in this proxy statement, or connected thereto are not incorporated into this proxy statement.

INFORMATION ABOUT OUR ANNUAL MEETING

When and where is the annual meeting?

We will hold the annual shareholder meeting on Friday, June 4, 2010, at 9:30 a.m., Eastern Daylight Time at the University Club, 1 West 54th Street, New York, New York 10019.

Who can attend the annual meeting?

Only shareholders of record as of April 9, 2010 (which we refer to as the record date), or their duly appointed proxies, and our invited guests are permitted to attend the annual meeting. To gain admittance, you must bring valid photo identification to the meeting, and we will verify your name against our shareholder list. If a broker or other nominee holds your shares and you plan to attend the meeting, you must bring a brokerage statement reflecting your share ownership as of the record date, a legal proxy from the broker to vote the shares that are held for your benefit and valid photo identification.

What is the purpose of the annual meeting?

Our 2010 annual meeting will be held for the following purposes:

1. To vote on the election of directors as follows:
    a. for the holders of Common stock to elect Robert L. Berner III to serve as a director until our 2013 annual meeting of shareholders or, until his successor is duly elected and qualified; and

b. for the holders of Class B common stock to elect Bob L. Moss and George P. Sape to serve as directors until our 2013 annual meeting of shareholders or, in each case, until their successors are duly elected and qualified.

2. To vote on such other business, if any, as may properly come before the meeting.

In addition, senior management will discuss the performance of the Company and respond to your questions.

Who can vote?

The Board has set April 9, 2010 as the record date for the annual meeting. Holders of Watsco Common stock and/or Class B common stock at the close of business on the record date are entitled to vote their shares at the annual meeting, or any postponement(s) or adjournment(s) of the meeting. As of the record date, there were 28,062,690 shares of our Common stock outstanding (representing 34,385,340 shares issued less 6,322,650 shares held in treasury) and 4,333,489 shares of our Class B common stock outstanding (representing 4,381,752 shares issued less 48,263 shares held in treasury), all of which are entitled to be voted.

A list of shareholders will be available at our executive offices at 2665 South Bayshore Drive, Suite 901, Coconut Grove, Florida 33133 for a period of ten days prior to the annual meeting and at the annual meeting itself for examination by any shareholder.

How do I vote?

Shareholders of Record

You are a shareholder of record if you are registered as a shareholder with our transfer agent, American Stock Transfer & Trust Company. To vote by mail, simply mark, sign and date your proxy card and return it in the enclosed envelope. To vote in person, attend our annual meeting, bring valid photo identification and deliver your completed proxy card in person.

Beneficial Shareholders

You are a beneficial shareholder if a brokerage firm, bank, trustee or other agent, referred to as a "nominee," holds your shares. This is often called ownership in "street name," since your name does not appear anywhere in our records. To vote by mail, simply mark, sign and date your proxy card, and return it in the enclosed envelope. To vote in person, attend our annual meeting, bring valid photo identification, bring a brokerage statement reflecting your share ownership as of the record date and obtain a legal proxy from your broker to vote the shares that are held for your benefit, attach it to your completed proxy card and deliver it in person.

How do I revoke my proxy and change my vote?

A shareholder of record may revoke a proxy by giving written notice of revocation to our Secretary at our headquarters before the meeting, by delivering a duly executed proxy bearing a later date or by voting in person at the annual meeting. If you are a beneficial shareholder, you may change your vote by following the nominee's procedures for revoking or changing your proxy.

What are the voting rights of Watsco shareholders?

Holders of our Common stock are entitled to one vote per share on each matter that is submitted to shareholders for approval and to vote as a separate class to elect 25% of our directors (rounded up to the next whole number), which presently equates to three directors. Holders of our Class B common stock are entitled to 10 votes per share on each matter that is submitted to shareholders for approval and to vote as a separate class to elect 75% of our directors (rounded down to the next whole number), which presently equates to six directors.

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Holders of our Common stock and our Class B common stock vote together as a single class on all matters except the election of directors or as otherwise provided by applicable law.

What are the voting recommendations of the Board?

The Board recommends that you vote FOR the election of each of the director nominees.

Unless contrary instructions are indicated on the enclosed proxy, all shares represented by valid proxies received pursuant to this solicitation (and which have not been revoked in accordance with the procedures set forth above) will be voted (a) "FOR" the election of the respective nominees for director named in this proxy statement and (b) in the discretion of the proxy holders listed on the proxy card, "FOR" or "AGAINST" all other matters as may properly come before the annual meeting. In the event a shareholder specifies a different choice by means of the enclosed proxy, such shares will be voted in accordance with the specification made.

What are "broker non−votes"?

"Broker non−votes" occur when shares held by a brokerage firm are not voted with respect to a proposal because the firm has not received voting instructions from the shareholder, and the firm does not have the authority to vote the shares at its discretion. Under the rules of the New York Stock Exchange ("NYSE"), brokerage firms have the authority to vote their customers' shares on certain "routine" matters for which they do not receive voting instructions. Prior to 2010, an uncontested election of directors was considered a "routine" matter under NYSE rules. In 2009, the Securities and Exchange Commission ("SEC") approved a proposal to amend the NYSE rules to eliminate discretionary voting by brokers in any election of directors. Accordingly, at this year's annual meeting, if other matters are properly brought before the special meeting and are not considered "routine" under the applicable NYSE rules, shares held by brokerage firms will not be voted on such non−routine matters by the brokerage firms unless they have received voting instructions and, accordingly, any such shares will be "broker non−votes."

What constitutes a quorum?

The presence at the meeting, in person or by proxy, of the holders of Common stock and Class B common stock representing a majority of the combined voting power of the outstanding shares of common stock as of the record date will constitute a quorum, permitting the meeting to conduct its business. As of the record date, there were 28,062,690 shares of Common stock outstanding and 4,333,489 shares of Class B common stock outstanding, all of which are entitled to be voted at the annual meeting.

As of the record date, our directors and executive officers and entities affiliated with these persons owned (i) Common stock representing 1.4% of the outstanding shares of Common stock and (ii) Class B common stock representing 92.0% of the outstanding shares of Class B common stock, together representing 56.4% of the aggregated combined votes of Common stock and Class B common stock entitled to be cast at the annual meeting. Such persons and entities represent a majority of the combined voting power of the outstanding shares of stock on the record date and thus constitute a quorum and have informed us that they intend to vote all of their shares of Common stock and Class B common stock in favor of all proposals set forth in the proxy statement.

If less than a majority of the combined voting power of the outstanding shares of Common stock and Class B common stock are represented at the annual meeting, a majority of the shares so represented may adjourn the annual meeting from time to time without further notice.

How many votes are needed for the proposals to pass?

For purposes of electing directors at the annual meeting, the nominees receiving the greatest numbers of votes of Common stock and Class B common stock, voting as separate classes to the extent they are entitled to

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vote on a nominee, shall be elected as directors. The affirmative vote of a majority of votes of Common stock and Class B common stock, in person or by proxy at the annual meeting and voting together as a single class, is required for any other matter that may be properly submitted to a vote of our shareholders.

A properly executed proxy marked "WITHHOLD VOTE" with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, but it will be counted for purposes of determining whether there is a quorum. Shareholders do not have the right to cumulate their votes for directors.

What is the effect of abstentions and broker non−votes?

Proxies received but marked "ABSTAIN" and broker non−votes will be included in the calculation of the number of shares considered to be present at the meeting for purposes of determining a quorum. Generally, abstentions and broker non−votes have the same effect as votes cast against proposals that require a majority or greater percentage of all outstanding shares entitled to vote, but they do not otherwise have any effect on any other proposals.

Who tabulates the votes?

Prior to the annual meeting, we will select one or more inspectors of election for the meeting. Such inspector(s) will determine the number of shares of Common stock and Class B common stock represented at the meeting, the existence of a quorum and the validity and effect of proxies, and shall receive, count and tabulate ballots and votes and determine the results thereof.

Who pays the cost of this proxy solicitation?

We pay the cost of soliciting your proxy, and we reimburse brokerage firms and others for forwarding proxy materials to you. In addition to solicitation by mail, we may also solicit proxies by letter, facsimile, e−mail, telephone or in person. Our directors, officers and employees may participate in the solicitation of proxies without additional consideration.

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PROPOSAL NO. 1—ELECTION OF DIRECTORS

Our Amended and Restated Articles of Incorporation and Amended Bylaws provide that our Board shall consist of no fewer than three nor more than nine members, and that it shall be divided, as nearly as possible, into three equal divisions, each of which serves for a staggered three year term. Our Board had previously been composed of nine members, three of whom were Common stock directors, and six of whom were Class B common stock directors. However, following the passing in November 2009 of Mr. Frederick H. Joseph, who had served as a Class B common stock director, our Board has consisted of eight members, three of whom are Common stock directors and five of whom are Class B common stock directors. As of the date of this proxy statement, no person has been nominated to fill the vacancy caused by Mr. Joseph's passing.

The three directors whose terms expire at the 2010 annual meeting of shareholders are Robert L. Berner III, Bob L. Moss and George P. Sape. Upon the recommendation of the Nominating & Strategy Committee, our Board has nominated Messrs. Berner, Moss and Sape for re−election at the 2010 annual meeting of shareholders, each of whom would serve for a three−year term expiring at the 2013 annual meeting of shareholders, and each has consented to serve if elected. Mr. Berner has been nominated as a director to be elected by the holders of Common stock, and Messrs. Moss and Sape have been nominated as directors to be elected by the holders of Class B common stock.

Our Board has determined that each director nominee qualifies as independent under applicable regulations and the categorical director independence standards adopted by our Board and set forth under "Director Independence" in this proxy statement.

Holders of our Common stock have previously elected Dr. Denise Dickins and Mr. Gary L. Tapella to serve as directors for terms expiring at the 2011 and 2012 annual meetings of shareholders, respectively. Holders of our Class B common stock have previously elected Messrs. Cesar L. Alvarez, Paul F. Manley and Albert H. Nahmad to serve as directors for terms expiring at the 2012, 2011 and 2012 annual meetings of shareholders, respectively.

We believe that each of our directors possesses the experience, skills and qualities to fully perform his or her duties as a director and contribute to our success. Our directors have been nominated because they possess the highest standards of personal integrity, interpersonal and communication skills, are highly accomplished in their fields, have an understanding of the interests and issues that are important to our shareholders and are able to dedicate sufficient time to fulfilling their obligations as directors. Our directors as a group complement each other and each of their respective experiences, skills and qualities. While our directors make up a diverse group in terms of age, gender, ethnic background and professional experience, they together comprise a cohesive body in terms of Board process and collaboration.

Director Biographies and Qualifications

Each director's principal occupation and other pertinent information about particular experience, qualifications, attributes and skills that led the Board to conclude that such person should serve as a director, appear below.

Albert H. Nahmad, 69, has served as our Chairman of the Board, President and Chief Executive Officer since December 1973. Mr. Nahmad is the general partner of Alna Capital Associates, LP, a New York limited partnership, which is one of our shareholders.

Mr. Nahmad was elected to the Board in December 1973 as founder. He is the Chair of the Nominating & Strategy Committee. He has 37 years of leadership experience as President and Chief Executive Officer and has broad knowledge of our Company and the HVAC/R industry.

Cesar L. Alvarez, 62, served as the Chief Executive Officer of the international law firm Greenberg Traurig, P.A. (“Greenberg”) from 1997 to 2010 and currently holds the position of Greenberg’s Executive Chairman.

Mr. Alvarez was elected to the Board in 1997 and is a member of the Nominating & Strategy Committee. The Board nominated Mr. Alvarez as a director because of his management experience as the current Executive Chairman and as former Chief Executive Officer of one of the nation’s largest law firms with professionals providing services in multiple locations across the country and abroad as well as his many years of corporate governance experience, both counseling and serving on the boards of directors of other publicly traded companies.

Mr. Alvarez also serves on the boards of directors of Mednax, Inc. and Fairholme Funds, Inc. Additionally, he also serves as Vice Chair of the John S. and James L. Knight Foundation and is the Chair of its audit committee and a member of its investment committee and nominating committee. Mr. Alvarez served as a director of Atlantis Plastics, Inc. from 1995 until 2008 and as a director of New River Pharmaceuticals, Inc. from 2004 until 2007.

Robert L. Berner III, 48, is Chairman of the U.S. Advisory Board at CVC Capital Partners, a leading global private equity firm dedicated to private equity. From 2007 to 2010, Mr. Berner was a Partner at CVC Capital Partners. From 2001 to 2007, Mr. Berner served as Managing Director of Ripplewood Holdings LLC where he oversaw investments in a number of industries. Prior to that, he was with Morgan Stanley for more than 10 years where he held various positions in the investment banking division.

Mr. Berner was elected to the Board in 2007 and is a member of the Nominating & Strategy Committee. The Board nominated Mr. Berner as a director because of his experience in private equity and investment banking, as well as his experience in governance matters through private company directorship experience.

Mr. Berner serves on the boards of directors of a number of private companies and charitable organizations.

Denise Dickins, 48, has been an Assistant Professor of Accounting and Auditing for East Carolina University since 2006. She was also an instructor for various accounting courses at Florida Atlantic University from 2002 to 2006. Prior to that, she was with Arthur Andersen LLP where she served in different capacities from 1983 to 2002, including Partner in Charge of the South Florida Audit Division. Dr. Dickins is a certified public accountant and certified internal auditor.

Dr. Dickins was elected to the Board in 2007 and is the Co−Chairperson of the Audit Committee. The Board nominated Dr. Dickins as a director because of her accomplished professional and academic experience in accounting and auditing as well as her other public company board experience, including experience with matters addressed by audit committees.

Dr. Dickins serves on the board of directors and the audit, compensation and nominating committees of TradeStation Group, Inc. She also serves on the board of directors and the audit, governance and nominating committees of Steiner Leisure Ltd.

Paul F. Manley, 73, has been retired since serving as Executive Director of the law firm of Holland & Knight from 1987 to 1991. From 1982 to 1987, Mr. Manley served as Vice President of Planning at Sensormatic Electronics Corporation. Prior to 1982, Mr. Manley served as the Managing Partner of the Miami office of Arthur Young & Company.

Mr. Manley was elected to the Board in 1984 and is the Co−Chairperson of the Audit Committee and Chair of the Compensation Committee. The Board nominated Mr. Manley as a director because of his past executive oversight and senior management experience as well as his financial expertise in accounting and auditing.

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Bob L. Moss, 62, is President of Moss & Associates LLC., which is the seventh largest construction company in Florida and one of the top 100 building contractors in the nation. Mr. Moss previously served as chairman of the board and Chief Executive Officer of Centex Construction Group from 2000 to 2002, the largest domestic general building contractor in the nation.

Mr. Moss was elected to the Board in 1992 and is a member of the Compensation Committee. The Board nominated Mr. Moss as a director because of his years of executive oversight and senior management experience in the construction industry.

George P. Sape, 65, has been the Managing Partner of Epstein Becker and Green, P.C., a New York−based law firm, since 1986. Mr. Sape previously served as Vice President and General Counsel for Organizations Resources Counselors, Inc., a consulting services provider to a number of Fortune 500 companies and has served as counsel or as an advisor to various congressional committees related to labor, education and public welfare. Mr. Sape also serves on the board of the University of Colorado School of Business.

Mr. Sape was elected to the Board in 2003 and is a member of the Audit Committee and Nominating & Strategy Committee. The Board nominated Mr. Sape as a director because of his core management skills and experience as the managing partner of a large law firm, his prior experience in consulting for Fortune 500 companies as well as his experience in governance matters through private company directorships.

Gary L. Tapella, 66, has been an Industrial Partner with One Rock Capital Partners since 2009. Mr. Tapella was an Industrial Partner with Ripplewood Holdings, LLC since 2005, and, from 1991 to 2005, Mr. Tapella served as the Chief Executive Officer and President of Rheem Manufacturing Company (“Rheem”). He was also Rheem’s Chairman of the Board from 2002 to 2005. Mr. Tapella has served in various other capacities, including Chief Operating Officer and Vice President—International, during his 36 years at Rheem.

Mr. Tapella was elected to the Board in 2006 and is a member of the Nominating & Strategy Committee. The Board nominated Mr. Tapella as a director because of his years of executive oversight and operating management experience in the HVAC/R industry as well as his prior experience in governance matters through private company directorships.

Mr. Tapella is the former Chairman of the Air Conditioning, Heating and Refrigeration Institute and the Gas Appliance Manufacturers Association.

CORPORATE GOVERNANCE

Corporate Governance Guidelines

The Board has adopted corporate governance guidelines for the purpose of defining responsibilities, setting high standards of professional and personal conduct and assuring compliance with such responsibilities and standards. We regularly monitor developments in the area of corporate governance. In July 2002, Congress passed the Sarbanes−Oxley Act of 2002 which, among other things, establishes, or provides the basis for, a number of new corporate governance standards and disclosure requirements. In addition, the NYSE and NYSE Amex have adopted changes to their corporate governance and listing requirements. We have adopted the requirements of the Sarbanes−Oxley Act, NYSE, and NYSE Amex and SEC rules as they relate to us. Our Corporate Governance Guidelines are available on our website at www.watsco.com, under the caption “Corporate Governance Guidelines” within the Governance section. These materials may also be requested in print by writing to our Investor Relations Department at Watsco, Inc., Investor Relations, 2665 South Bayshore Drive, Suite 901, Coconut Grove, FL 33133.

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Codes of Conduct

The Board has adopted codes of conduct that are designed to ensure that directors, officers and employees of the Company are aware of their ethical responsibilities and avoid conduct that may pose risk to the Company. We maintain an Employee Code of Business Ethics and Conduct that is applicable to all employees. Additionally, we maintain a Code of Conduct for Executives that is applicable to members of our Board, executive officers and senior operating and financial personnel, including provisions applicable to our senior financial officers consistent with the Sarbanes−Oxley Act of 2002. These codes require continued observance of high ethical standards such as honesty, integrity and compliance with the law in the conduct of our business. These codes are publicly available on our website at www.watsco.com, under the caption “Codes of Conduct” within the Governance section. We intend to post on our website amendments to or waivers from our Code of Conduct for Executives (to the extent applicable to our chief executive officer, principal financial officer or principal accounting officer or directors). There were no amendments or waivers from our Code of Conduct for Executives in 2009. Violations under either code of conduct must be reported to the Audit Committee. These materials may also be requested in print by writing to our Investor Relations Department at Watsco, Inc., Investor Relations, 2665 South Bayshore Drive, Suite 901, Coconut Grove, FL 33133.

BOARD OF DIRECTORS

Board Leadership Structure

Our Chief Executive Officer (“CEO”) and President, Albert H. Nahmad, also serves as the Chairman of the Board. The Board believes that this leadership model is appropriate for the following reasons:

- our Board has adopted strong and effective corporate governance policies and procedures to promote the effective and independent governance of the Company. See “Corporate Governance Guidelines” and “Codes of Conduct” above;
- our independent directors meet in regularly scheduled executive sessions led by a presiding lead director (alternating between two directors) without management present;
- the combined roles enable decisive leadership, ensure clear accountability and foster alignment between the Board and management on corporate strategy; and
- the Board has demonstrated that it has functioned effectively and believes it will continue to function effectively with its current leadership structure and with Mr. Nahmad as its Chairman.

In order to mitigate any potential disadvantages of a combined CEO and Chairman of the Board, the Board has developed the role of a strong lead independent director to facilitate and strengthen the Board’s independent oversight of our performance, strategy and succession planning and to uphold effective governance standards. Historically, two independent directors alternate annually in the role of presiding lead director over meetings of the independent directors. We recently revised our Corporate Governance Guidelines to formalize the role of the lead director. The position of the lead director is currently held by Paul F. Manley.

The presiding lead director has the following duties and responsibilities:

- advise the Chairman as to an appropriate schedule of Board meetings;
- review and provide the Chairman with input regarding the agendas for the Board meetings;
- preside at all meetings at which the Chairman is not present including executive sessions of the non−management directors and apprise the Chairman of the issues considered;
- be available for direct communication with the Company’s shareholders;
- call meetings of the non−management directors when necessary or appropriate; and
- perform such other duties as the Board may from time to time delegate.

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In determining the appropriate leadership structure, the Board considered a number of factors, including the candor and dynamics of discussion among the directors and between directors and management, in addition to the effectiveness of the role of the independent lead director and the combined role of CEO and Chairman of the Board.

Our business and affairs are managed under the direction of our Board, which is the Company's ultimate decision−making body, except with respect to those matters reserved to our shareholders. Our Board's mission is to maximize long−term shareholder value. Our Board establishes our overall corporate policies, selects and evaluates our executive management team, which is charged with the conduct of our business, and acts as an advisor and counselor to executive management. Our Board also oversees our business strategy and planning, as well as the performance of management in executing its business strategy and assessing and managing risks.

Board Role in Risk Oversight

The Board carries out its role in the oversight of risk directly and through Board committees. The Board's direct role includes the consideration of risk in the strategic and operating plans that are presented to the Board by management. Board committees carry out the Board's oversight of risk as follows:

- the Audit Committee oversees the integrity of the Company's financial reporting process and internal control environment, legal and regulatory compliance, qualifications of our independent registered public accounting firm, performance of our internal audit function, financial and disclosure controls, adherence to the Company's Codes of Conduct and makes determinations regarding significant transactions with related parties;
- the Compensation Committee determines the compensation of our CEO, reviews the compensation of the other executive officers, administers benefit plans and policies with respect to our executive officers and considers whether any of those plans or policies create risks that are likely to have a material adverse effect on the Company; and
- the Nominating & Strategy Committee is responsible for the selection and retention of Board members, the evaluation of directors and director nominees, the recommendation of director nominees and the remuneration of directors.

While our Board oversees our management of risk as outlined above, management is responsible for identifying and managing risks.

Director Independence

The Board has adopted independence guidelines for non−management directors to serve on the Board that comply with applicable NYSE and NYSE Amex rules. Each non−management director and director nominee satisfies the standards adopted. In determining that Mr. Alvarez was independent, the Board considered the legal services provided to us by Greenberg, a law firm for which Mr. Alvarez serves as Executive Chairman. See "Certain Relationships and Related Person Transactions." Our independence guidelines are included in the Corporate Governance Guidelines, which are available on our website at www.watsco.com, under the caption "Corporate Governance Guidelines" within the Governance section.

Board Meetings

The Board took action by unanimous written consent three times and held seven meetings during 2009. Each of the directors attended 86% or more of the aggregate number of meetings of the Board and committees on which the director served in 2009. Our non−management directors meet at regularly scheduled executive sessions without management. The Board has designated either Messrs. Manley or Alvarez (on an alternating basis) as the presiding lead director for executive sessions of the non−management directors.

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Our Corporate Governance Guidelines provide that all directors should make every effort to attend our shareholder meetings. All of our directors attended the 2009 annual meeting of shareholders.

Board Committees

The Board has established three separately designated standing committees to assist the Board in discharging its responsibilities: (1) the Audit Committee, (2) the Compensation Committee and (3) the Nominating & Strategy Committee. Only independent directors may serve on the Audit and Compensation Committees.

Audit Committee

During 2009, Messrs. Manley and Sape and Dr. Dickins were the members of the Audit Committee. All Audit Committee members are independent as required by applicable listing standards of the NYSE, NYSE Amex, Sarbanes−Oxley Act of 2002 and applicable SEC rules. The Audit Committee held eight meetings during 2009. All Audit Committee members possess the required level of financial literacy as defined in the Audit Committee charter, and Mr. Manley and Dr. Dickins, Co−Chairpersons of the Audit Committee, qualify as “audit committee financial experts” as defined by applicable SEC rules and regulations and meet the current standard of requisite financial management expertise as required by the NYSE, NYSE Amex and applicable SEC rules and regulations.

The Audit Committee’s functions include overseeing the integrity of our financial statements and internal control environment, our compliance with legal and regulatory requirements, the qualifications of our independent registered public accounting firm, and the performance of our internal audit function and controls regarding finance, accounting, legal compliance and ethics that management and our Board have established. In this oversight capacity, the Audit Committee reviews the scope, timing and fees for the annual audit and the results of audit examinations performed by our internal auditors and independent registered public accounting firm, including their recommendations to improve the system of accounting and internal controls as required by section 404 of the Sarbanes−Oxley Act of 2002. The Audit Committee is responsible for the appointment, compensation, retention and oversight of the work of our independent registered public accounting firm.

The Audit Committee operates under a formal charter that governs its duties and conduct. The charter is reviewed annually by the Audit Committee, and any recommended changes to the charter are submitted to the Board for its approval. A copy of the current Audit Committee charter is available on our website at www.watsco.com, under the caption “Committees” within the Governance section. The charter is also available in print to any shareholder who requests it in writing to our Investor Relations department at Watsco, Inc., Investor Relations, 2665 South Bayshore Drive, Suite 901, Coconut Grove, FL 33133.

KPMG LLP, our independent registered public accounting firm, reports directly to the Audit Committee.

The Audit Committee has adopted procedures for dealing with reported violations of our Employee Code of Business Ethics and Conduct and Code of Conduct for Executives to enable confidential and anonymous reporting of improper activities directly to the Audit Committee. See “Codes of Conduct” for additional information.

Please refer to the Report of the Audit Committee, which is set forth in this proxy statement, for a further description of our Audit Committee’s responsibilities and its recommendation with respect to our audited consolidated financial statements for the year ended December 31, 2009.

Compensation Committee

During 2009, the members of the Compensation Committee were Messrs. Manley and Moss, and the Committee held six meetings. The Compensation Committee determines the compensation of our CEO, reviews

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the compensation of the other executive officers and reads and approves the Compensation Discussion and Analysis included in this proxy statement. It also administers with respect to our executive officers our Amended and Restated 2001 Incentive Compensation Plan (the "2001 Plan") and Employee Stock Purchase Plan. Please refer to the Report of the Compensation Committee and Compensation Discussion and Analysis, which is set forth in this proxy statement, for a further description of our Compensation Committee's responsibilities and its compensation philosophy and a description of considerations underlying each component of compensation paid to our Named Executive Officers for 2009.

The Compensation Committee operates under a formal charter that governs its duties and conduct. The charter is reviewed annually by the Compensation Committee, and any recommended changes to the charter are submitted to the Board for its approval. A copy of the current charter is available on our website at www.watsco.com, under the caption "Committees" within the Governance section. The charter is also available in print to any shareholder who requests it in writing to our Investor Relations department at Watsco, Inc., Investor Relations, 2665 South Bayshore Drive, Suite 901, Coconut Grove, FL 33133.

Nominating & Strategy Committee

Messrs. Alvarez, Berner, Nahmad, Sape and Tapella are the members of the Nominating & Strategy Committee. We have elected to apply the exemption related to a controlled company provided by the NYSE and the NYSE Amex which allows a company that has more than 50% of the voting power held by an individual (Mr. Nahmad has a combined voting power of 53.6% as of the record date) to be exempted from complying with rules requiring that only independent directors comprise our Nominating & Strategy Committee or adopt a charter. The Nominating & Strategy Committee is responsible for (a) establishing procedures for the selection and retention of members of the Board, (b) evaluating Board nominees and members and (c) recommending nominees. The Nominating & Strategy Committee is responsible for reviewing at least annually the qualifications of directors and nominees, as well as the composition of the Board as a whole, in accordance with the Company's corporate governance guidelines. While the Nominating & Strategy Committee has no specific minimum qualifications for director candidates, the Committee takes into account each individual's background, as well as considerations of diversity, age, skills and experience in the context of the needs of the Board. The Nominating & Strategy Committee also considers whether, by significant accomplishment in his or her field, the director or nominee has demonstrated an ability to make a meaningful contribution to the Board's oversight of the business and affairs of the Company, as well as his or her reputation for honesty and ethical conduct in his or her personal and professional activities and independence from management. While the Company's corporate governance guidelines do not prescribe specific diversity standards, as a matter of practice, the Board considers diversity in the context of the Board as a whole and takes into account considerations relating to ethnicity, gender, cultural diversity and the range of perspectives that the directors bring to their work.

Shareholders may make recommendations for director nominations by sending a letter to the Nominating & Strategy Committee, or may make a nomination by complying with the notice procedures set forth in our Amended Bylaws and in accordance with the procedures outlined under "Shareholder Communications" provided in this proxy statement. When identifying, evaluating and considering potential candidates for membership on our Board, including those who might be recommended or nominated by shareholders, the Nominating & Strategy Committee considers relevant educational, business and industry experience and demonstrated character and judgment. Further information related to the Nominating & Strategy Committee is included in our Corporate Governance Guidelines.

The Nominating & Strategy Committee met at various times during 2009.

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Director Compensation

We did not pay the directors a fee for Board meeting attendance during 2009. We reimburse directors for their expenses in connection with their activities as directors. The Nominating & Strategy Committee reviews directors' remuneration and recommends to the Board any proposed changes to director remuneration. In connection with their roles as Audit Committee Co−Chairpersons, Mr. Manley and Dr. Dickins each received an annual fee of $40,500 in 2009 and were reimbursed for expenses associated with the performance of their Audit Committee duties. Mr. Manley received an annual fee of $9,000 for his role as Chairman of the Compensation Committee and was reimbursed for expenses associated with the performance of his duties. Our directors are eligible to receive stock options under our 2001 Plan at the discretion of our Compensation Committee, but no such awards were granted to our directors for the year ended December 31, 2009.

The following table sets forth the total compensation received by our non−management directors during 2009.

The non−management directors do not have any compensation associated with stock awards, non−equity incentive plans, non−qualified deferred compensation or any other compensation; therefore these columns are excluded from the following table.

Name	Fees Earned or Paid in Cash ($)	Option Awards ($) (1)	Total ($)
Cesar L. Alvarez	—	—	—
Robert L. Berner III	—	—	—
Denise Dickins	$ 40,500	—	$40,500
Frederick H. Joseph (2)	—	—	—
Paul F. Manley	$ 49,500	—	$49,500
Bob L. Moss	—	—	—
George P. Sape	—	—	—
Gary L. Tapella	—	—	—

(1) The following table sets forth the number of stock option awards outstanding for each non−management director as of December 31, 2009.

Name	Outstanding Option Awards
Cesar L. Alvarez	—
Robert L. Berner III	25,000
Denise Dickins	25,000
Frederick H. Joseph (2)	—
Paul F. Manley	21,750
Bob L. Moss	—
George P. Sape	20,000
Gary L. Tapella	25,000

(2) Mr. Joseph passed away on November 27, 2009.

Certain Relationships and Related Person Transactions

We review, at least annually, all relationships and transactions in which the Company and our directors or executive officers or their immediate family members are participants to determine whether such persons have a direct or indirect material interest. We may use outside legal counsel to assist in such determination. As required under SEC rules, transactions that are determined to be directly or indirectly material to the Company or a related person are disclosed in the proxy statement. In addition, as set forth in the Audit Committee Charter, the Audit

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Committee reviews and approves or ratifies any related person transaction that is required to be disclosed. The following is a summary of certain agreements and transactions among related parties and us. It is our policy that any such agreements and transactions must be entered into in good faith and on fair and reasonable terms that are no less favorable to us than those that would be available to us in a comparable transaction in arms−length dealings with an unrelated third party. We believe that all agreements and transactions described below met that standard at the time they were effected and approved or ratified by the Audit Committee.

Mr. Alvarez, a director, is the Executive Chairman of Greenberg, which serves as one of our outside legal counsels and receives customary fees for legal services. During 2009, we paid this firm $49,000 for services performed. We currently anticipate that this arrangement will continue. Additionally, during 2009, we paid this firm $150,000 for services performed for one of the Company's lenders.

Mr. Nahmad has a son currently employed with the Company on a part−time basis. For the year ended December 31, 2009, total compensation paid to Mr. Nahmad's son was approximately $23,000.

Shareholder Communications

Communications with the Company and the Board

Shareholders may communicate with the Company through its Investor Relations Department by writing to Watsco, Inc., Investor Relations, 2665 South Bayshore Drive, Suite 901, Coconut Grove, FL 33133.

Shareholders interested in communicating with our Board can call (800) 4WATSCO in the United States and request to leave a message for the presiding lead director. You may also contact the presiding lead director by e−mail at presidingdirector@watsco.com or by going to our website at www.watsco.com, under the caption "Presiding Directors" within the Governance section. Regardless of the method you use, the presiding lead director will be able to view your unedited message. The presiding lead director will determine whether to relay your message to other members of the Board.

Shareholder Proposals for Next Year's Annual Meeting

Shareholders interested in submitting a proposal for inclusion in our proxy materials for our 2011 annual meeting of shareholders may do so by following the procedures set forth in Rule 14a−8 promulgated by the Securities and Exchange Act of 1934. To be eligible for inclusion in such proxy materials, shareholder proposals must be received by our Corporate Secretary no later than December 31, 2010. Any shareholder proposal submitted other than for inclusion in the proxy materials for that meeting must be delivered to us no later than March 16, 2011, or such proposal will be considered untimely. If a shareholder proposal is received after March 16, 2011, we may vote in our discretion as to the proposal all of the shares for which we have received proxies for the 2011 annual meeting of the shareholders.

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SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors, officers and persons who beneficially own more than 10% of a registered class of our equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of the common stock and other equity securities of the Company. To our knowledge, based solely on our records and certain written representations received from our directors, officers and those persons who own greater than 10% of any class of our registered equity securities, for the year ended December 31, 2009, all applicable Section 16(a) filing requirements were complied with on a timely basis.

STOCK OWNERSHIP

The following table contains information regarding the beneficial ownership of our Common stock and Class B common stock for the following persons:

(i) each shareholder known by us to beneficially own more than 5% of any class of our voting securities,

(ii) each of our directors and director nominees,

(iii) each executive officer named in the 2009 Summary Compensation Table in "Compensation Tables," and

(iv) all directors and named executive officers as a group.

The table also contains, in the final column, the combined voting power of the voting securities on all matters presented to the shareholders for their approval, except for the election of directors and for such separate class votes as are required by Florida law. All information is as of the record date, April 9, 2010.

Name and Address of Beneficial Owners(1)	Common Stock Beneficially Owned(2) Shares	Percent	Class B Common Stock Beneficially Owned(2) Shares	Percent	Combined Percent of Voting Securities(2)
Shareholders owning more than 5% of any class of Common Stock:					
BlackRock, Inc.(3)	3,568,084	12.7%	—	—	5.0%
Carrier Corporation(4)	2,985,685	10.6%	94,784	2.2%	5.5%
Capital World Investors(5)	1,496,135	5.3%	—	—	2.1%
Earnest Partners, LLC(6)	1,398,427	5.0%	—	—	2.0%
Alna Capital Associates, LP(7)	—	—	766,886	17.7%	10.7%
Directors and Named Executive Officers:					
Albert H. Nahmad(8)	1,118	*	3,829,975	88.4%	53.6%
Barry S. Logan(9)	155,710	*	114,976	2.7%	1.8%
Ana M. Menendez(10)	96,210	*	20,000	*	*
Paul W. Johnston(11)	68,167	*	20,000	*	*
Bob L. Moss(12)	67,566	*	—	—	*
Cesar L. Alvarez(13)	55,313	*	—	—	*
Gary L. Tapella(14)	40,406	*	—	—	*
Robert L. Berner III(15)	26,000	*	—	—	*
Denise Dickins(16)	25,291	*	—	—	*
Paul F. Manley(17)	22,998	*	1,255	*	*
George P. Sape(18)	20,000	*	—	—	*
All directors, director nominees and named executive officers as a group (11 persons)(19)	578,779	2.0%	3,986,206	92.0%	56.4%

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* Less than 1%.

(1) Unless otherwise indicated below, (a) the address of each of the beneficial owners identified is c/o Watsco, Inc., 2665 South Bayshore Drive, Suite 901, Coconut Grove, Florida 33133 and (b) each person or group has sole voting and investment power with respect to all such shares.

(2) Percentages are based on 28,062,690 shares of Common stock and 4,333,489 shares of Class B common stock issued and outstanding as of the record date. The percentage for each individual shareholder additionally includes the number of shares of common stock that such beneficial owner may acquire within 60 days of the record date pursuant to the exercise, exchange or conversion of options or other rights. The number and percentage of shares beneficially owned is determined in accordance with the rules and regulations promulgated under the Securities Exchange Act of 1934, as amended, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under applicable rules of the SEC, although each named person and all directors and executive officers as a group are deemed to be the beneficial owners of securities that may be acquired within 60 days through the exercise of, exchange, or conversion of options or other rights, and the Class B common stock is immediately convertible into Common stock on a one−for−one basis, the number of shares set forth opposite each shareholder's name does not include shares of Common stock issuable upon conversion of our Class B common stock.

(3) Based on Schedule 13G filed on January 8, 2010. The address of BlackRock, Inc., a parent holding company, is 40 East 52nd Street, New York, New York 10022.

(4) Based on Schedule 13G filed on July 7, 2009. The address of Carrier Corporation, a wholly owned subsidiary of United Technologies Corporation, is One Carrier Place, Farmington, Connecticut 06034.

(5) Based on Schedule 13G/A filed on January 8, 2010. Capital World Investors, an investment adviser, has sole dispositive power over 1,496,135 of such shares and sole voting power over 428,336 of such shares. The Income Fund of America, Inc., an investment company managed by Capital Research and Management Company who manages the equity assets for various investment companies through Capital World Investors is the beneficial owner of 1,067,799 of such shares. The address of Capital World Investors and The Income Fund of America, Inc. is 333 South Hope Street, Los Angeles, California 90071.

(6) Based on Schedule 13G/A filed on January 11, 2010. The address of Earnest Partners, LLC, an investment adviser, is 1180 Peachtree Street NE, Suite 2300, Atlanta, Georgia 30309.

(7) Alna Capital Associates, LP ("Alna Capital") is a New York limited partnership of which Mr. Nahmad owns a 19.994% interest and is the sole general partner. The address of Alna Capital is 505 Park Avenue, 16th Floor, New York, New York 10022.

(8) Includes shares indicated as beneficially owned by Alna Capital. See footnote (7) above. The number of shares of Common stock indicated are owned pursuant to the Watsco, Inc. Amended and Restated Profit Sharing Retirement Plan & Trust ("Profit Sharing Plan"). The number of shares of Class B common stock indicated consists of (i) 1,195,333 shares directly owned, (ii) 531,310 shares owned by trusts and (iii) 1,336,446 shares issued under Restricted Stock Agreements.

(9) The number of shares of Common stock indicated consists of (i) 44,355 shares directly owned, (ii) 2,155 shares owned pursuant to the Profit Sharing Plan, (iii) 450 shares owned in an Individual Retirement Account ("IRA") and (iv) 108,750 shares issued pursuant to Restricted Stock Agreements. The number of shares of Class B common stock indicated consists of (i) 24,976 shares directly owned and (ii) 90,000 shares issued under Restricted Stock Agreements.

(10) The number of shares of Common stock indicated consists of (i) 10,146 shares directly owned, (ii) 1,064 shares owned pursuant to the Profit Sharing Plan, (iii) 40,000 shares issued pursuant to Restricted Stock Agreements, (iv) 15,000 shares issuable upon exercise of presently exercisable options granted pursuant to the 1991 Plan and (v) 30,000 shares issuable upon exercise of presently exercisable options granted pursuant to the 2001 Plan. The number of shares of Class B common stock indicated consists of shares issued under a Restricted Stock Agreement.

(11) The number of shares of Common stock indicated consists of (i) 200 shares directly owned, (ii) 467 shares owned pursuant to the Profit Sharing Plan, (iii) 37,500 shares issued pursuant to Restricted Stock Agreements and (iv) 30,000 shares issuable upon exercise of presently exercisable options granted pursuant

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to the 2001 Plan. The number of shares of Class B common stock indicated consists of shares issued under a Restricted Stock Agreement.

(12) The number of shares of Common stock indicated consists of (i) 61,766 shares directly owned, (ii) 1,800 shares owned in an IRA and (iii) 4,000 shares owned by Mr. Moss's spouse. Mr. Moss disclaims beneficial ownership of the shares held by his spouse, except to the extent of his pecuniary interest therein.

(13) The number of shares of Common stock indicates shares directly owned.

(14) The number of shares of Common stock indicated consists of (i) 5,468 shares directly owned, (ii) 2,235 shares owned by a trust he controls, (iii) 5,468 shares owned by Mr. Tapella's spouse, (iv) 2,235 shares owned by a trust controlled by Mr. Tapella's spouse and (v) 25,000 shares issuable upon exercise of presently exercisable options granted pursuant to the 2001 Plan. Mr. Tapella disclaims beneficial ownership of the shares held by his spouse, except to the extent of his pecuniary interest therein.

(15) The number of shares of Common stock indicated consists of (i) 1,000 shares directly owned and (ii) 25,000 shares issuable upon exercise of presently exercisable options granted pursuant to the 2001 Plan.

(16) The number of shares of Common stock indicated consists of (i) 291 shares directly owned and (ii) 25,000 shares issuable upon exercise of presently exercisable options granted pursuant to the 2001 Plan.

(17) The number of shares of Common stock indicated consists of (i) 1,248 shares owned by a trust controlled by Mr. Manley and (ii) 21,750 shares issuable upon exercise of presently exercisable options granted pursuant to the 2001 Plan and held by a trust controlled by Mr. Manley. The number of shares of Class B common stock indicates shares owned by a trust controlled by Mr. Manley.

(18) The number of shares of Common stock indicates shares issuable upon exercise of presently exercisable options granted pursuant to the 2001 Plan.

(19) Includes shares beneficially owned by directors and named executive officers as described in footnotes (8)−(18).

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SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table contains information as of December 31, 2009 with respect to compensation plans (including individual compensation arrangements) under which any of our equity securities are authorized for issuance.

	Equity Compensation Plan Information(4)		
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted−average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	615,000(1)	$ 33.19	1,346,095(3)
Equity compensation plans not approved by security holders	(2)	—	—
Total	615,000	$ 33.19	1,346,095

(1) Composed of 515,000 shares of Common stock and 100,000 shares of Class B common stock.
(2) Does not include 103,750 shares of non−vested (restricted) Common stock, net of cancellations and 455,000 shares of non−vested (restricted) Class B common stock, net of cancellations granted to certain employees prior to the adoption of the Amended and Restated 2001 Incentive Compensation Plan.
(3) Composed of 1,263,092 shares reserved for issuance under the Amended and Restated 2001 Incentive Compensation Plan and 83,003 shares reserved for issuance under the Third Amended and Restated 1996 Qualified Employee Stock Purchase Plan ("ESPP"). An aggregate of 10,917 shares of Common stock were purchased under the ESPP in 2009.
(4) See Note 6 to the consolidated financial statements included in our 2009 Annual Report to Shareholders for additional information regarding share−based compensation and benefit plans.

EXECUTIVE OFFICERS

Our current executive officers are as follows:

Name	Age	Position
Albert H. Nahmad	69	Chairman of the Board, President and Chief Executive Officer
Barry S. Logan	47	Senior Vice President and Secretary
Paul W. Johnston	57	Vice President
Ana M. Menendez	45	Chief Financial Officer and Treasurer

Biographical information for Mr. Nahmad can be found in the section entitled "*Proposal No. 1—Election of Directors*."

Barry S. Logan, 47, has served as our Senior Vice President and Secretary since November 2003 and as Secretary since 1997. Mr. Logan served as Vice President—Finance and Chief Financial Officer from 1997 to October 2003, as Treasurer from 1996 to 1998 and in other capacities beginning in 1992. Mr. Logan is a certified public accountant.

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Paul W. Johnston, 57, has served as our Vice President since March 2008 and as Head of Business Development since 2002. From 1984 to 2002, Mr. Johnston served in various strategy and marketing positions, including Vice President of Distribution for Carrier Corporation, a unit of United Technologies Corporation.

Ana M. Menendez, 45, has served as our Chief Financial Officer and Treasurer since November 2003, as Treasurer since 1998 and as Assistant Secretary since 1999. Ms. Menendez is a certified public accountant.

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EXECUTIVE COMPENSATION

Compensation Committee Report

The following report of the Compensation Committee shall not be deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission nor shall this information be incorporated by reference into any future filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into a filing.

We have reviewed and discussed the Compensation Discussion and Analysis contained in this proxy statement with management. Based on our review and discussions, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

This report is provided by the following independent directors, who comprise the Compensation Committee:

COMPENSATION COMMITTEE

Paul F. Manley, Chairman
Bob L. Moss

Risk Considerations in our Compensation Programs

We have reviewed our compensation structures and policies as they pertain to risk and have determined that our compensation programs do not create or encourage the taking of risks that are reasonably likely to have a material adverse effect on the Company.

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee during 2009 was an officer, employee or former officer of ours or any of our subsidiaries or had any relationship that would be considered a compensation committee interlock and would require disclosure in this proxy statement pursuant to SEC regulations. None of our executive officers served as a member of a compensation committee or a director of another entity under the circumstances requiring disclosure in this proxy statement pursuant to SEC regulations.

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COMPENSATION DISCUSSION AND ANALYSIS

Overview

The objectives of our compensation program are to (1) attract, motivate, develop and retain leaders who will drive long−term shareholder value and (2) deliver competitive total compensation upon achievement of our performance goals. We want our executives to balance the risks and related opportunities inherent in our industry and in the performance of their duties and share in the upside opportunity and the downside risks of actual performance.

Our executive team is led by our Chief Executive Officer ("CEO") and our other named executive officers ("NEOs") who are our Senior Vice President ("SVP"), Vice President ("VP") and Chief Financial Officer ("CFO"). In addition to the CEO and the NEOs, we consider our subsidiary presidents to be an integral part of our success. While the discussion below references our NEOs, these policies are generally applicable to our subsidiary presidents.

Named Executive Officers

In this Compensation Discussion and Analysis, we describe the material components of our executive compensation program for our NEOs:

Name	Title
Albert H. Nahmad	Chairman of the Board, President and Chief Executive Officer
Barry S. Logan	Senior Vice President and Secretary
Paul W. Johnston	Vice President
Ana M. Menendez	Chief Financial Officer and Treasurer

Annual compensation decisions relating to the NEOs are the responsibility of the Compensation Committee (the "Committee"), whereas our CEO determines the compensation of our subsidiary presidents.

Oversight of Executive Compensation Program

The Board has delegated to the Committee its responsibility for determining compensation (short, intermediate and long−term) for the NEOs.

The Committee consists of two independent directors appointed by our Board. Each member is an independent director, consistent with applicable rules and regulations of the SEC, NYSE and NYSE Amex.

The responsibilities of the Committee, as stated in its charter, include the following:

- to fairly and justly determine short, intermediate and long−term compensation for the NEOs;
- to constantly re−evaluate compensation practices to assure the fairness, relevance, support of the strategic goals of the Company and contribution to the creation of long−term shareholder value;
- to consider the relevant mix of compensation based upon three components – base salary, annual or intermediate incentives and long−term compensation, with each component intended to be an important piece of the overall compensation package; and
- to develop a compensation plan that allocates a significant portion of the executives' total compensation through incentives and other forms of longer−term compensation linked to Company performance and the creation of shareholder value, including share−based awards and programs.

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The Committee is responsible each year to:

- by March 30, determine with the CEO his base salary and incentive compensation for that year and in such a manner that will qualify for the performance−based exception under Section 162(m) of the Internal Revenue Code of 1986, as amended;
- review and approve, in advance, any changes to the compensation of the SVP, VP and CFO;
- review and discuss with management the disclosures made in the Compensation Discussion and Analysis prior to the filing of our proxy statement for the annual meeting of shareholders; and
- document a performance evaluation to ensure the Committee has performed all items required under its Charter.

Compensation Philosophy

The following key attributes are considered in the design and implementation of total compensation:

− *Performance based* – a significant portion of annual compensation is linked to performance and is tied to the overall performance of the Company, operating subsidiary and individual results;

− *Shareholder alignment* – compensation programs are designed to maximize shareholder value. Share−based awards are closely aligned with the long−term interests of our shareholders.

− *Sharing of risk* – variable compensation represents the greatest portion of the named executive officers' compensation and provides both an upside and risk based on actual performance−based achievements. For the NEO's, total variable compensation represented 69% of their compensation in 2009.

− *Competitiveness* – pay levels are determined from an assessment of internal pay, external market competitiveness and an evaluation of the amount of total compensation to the amount of total shareholder value creation.

− *Balance of short−term and long−term objectives* – the sustained success of the Company requires a balance, creating value in both short−term and long−term time horizons. For the NEOs, short−term incentives represented 2% of variable compensation, and long−term incentives represented 98% of variable compensation in 2009.

− *Compliance* – our compensation plans are designed to be fully compliant with all legal and regulatory requirements.

Financial and Non−Financial Metrics Used in Compensation Programs

Several key financial metrics are considered in measuring performance for executive compensation as follows:

Earnings per Share

To ensure that compensation is proportional to the return on investment earned by shareholders, we use earnings per share ("EPS") as one of the metrics to determine incentive compensation for our CEO. EPS is generally defined as the sum of our annual distributed earnings to common shareholders and undistributed earnings allocated to common shareholders divided by the weighted−average number of shares outstanding during that year.

Common Stock Price

As is the case with EPS, we also look at the closing market price for our Common stock as a means to ensure compensation is proportional to the return on investment earned by shareholders. Incentive compensation for our CEO takes into account the change in the price of our Common stock from year to year.

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For our CEO, no incentive compensation is earned unless one of the two metrics above has increased for the year in which the incentive compensation is being determined.

Subsidiary Earnings Before Interest and Income Taxes ("EBIT") Performance

The leadership of our operating subsidiaries is instrumental to the performance of the Company, and sustained earnings growth is the key measurement to determine incentive compensation of our business unit leaders. Growth of EBIT from year to year forms the primary basis for incentive compensation earned by each subsidiary president. When measuring EBIT performance, EBIT is defined as earnings before interest and income taxes for the particular business unit, inclusive of the incentive compensation. Generally, there is no incentive compensation paid to a subsidiary president unless there is meaningful growth in the EBIT of his or her subsidiary from year to year.

Cash Flow Index

Long−term generation of positive cash flow from operations is also a key financial metric for us. Each subsidiary president's incentive compensation, if any, may be modified by a "cash flow index" factor, which is determined by dividing the subsidiary's cash flow from operations by its net income.

Health and Safety Performance

Maintenance of a safe work environment for our employees and customers is expected at all times. Implementation of wellness programs for the benefit of our employees is also considered important. Improvements achieved year to year pertaining to specific health and safety metrics may be rewarded as additional paid incentives to our subsidiary presidents.

Discretionary Bonuses

Discretionary bonuses are also considered from time to time based on individual achievements and/or on qualitative criteria. For our NEOs, the Committee considers the relative merits and approves such amounts prior to payment.

Review of Named Executive Officers and Subsidiary Presidents Performance

Annually, the Committee provides a report to our Board, including the results of the Committee's self−assessment of the effectiveness of its activities.

The Committee reviews, on an annual basis, each compensation element for each of our NEOs. In each case, the Committee takes into account the scope of responsibilities and experience, and balances these against competitive salary levels. The Committee has the opportunity to meet with the executive officers at various times during the year, which allows the Committee to form its own assessment of each individual's performance.

Each year the subsidiary presidents' contributions and performance in the prior calendar year, strengths, weaknesses, development plans and succession potential are evaluated and a new incentive program is reviewed and approved by the CEO.

Elements of Compensation

Our compensation programs are based on three components: base salary, annual cash incentives and long−term, share−based compensation, each of which is intended as an important piece of the overall compensation:

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Base Salary

Base salary is used to attract and retain our executives and is determined considering primarily the seniority of the individual, the functional role of the position, the level of the individual's responsibility and the ability to replace the individual. Salaries for the NEOs are reviewed by the Committee on an annual basis. Salaries for the subsidiary presidents are reviewed annually by the CEO. In addition, competitive market practices are considered with respect to the salaries. Changes to base salaries, if any, are driven primarily by individual performance. The salaries paid to the NEOs during 2009 are shown in the Summary Compensation Table presented in this proxy statement.

Annual Cash Incentives

Annual cash incentives are a significant component of executive compensation, reflecting our belief that management's contribution to long−term shareholder returns (via increasing stock prices and dividends) comes from maximizing earnings and the potential of the Company.

No cash incentives were paid to the NEOs for the 2009 fiscal year.

Long−Term Share−Based Compensation

We have historically granted two types of long−term, share−based compensation: (1) non−qualified stock options and (2) awards of non−vested (restricted) stock. Grants are made to retain executives and motivate them to successfully enhance shareholder value.

Stock Options

Stock options provide executives with an opportunity to purchase our Common stock at a price determined on the grant date regardless of future market price. As of December 31, 2009, we maintained two share−based compensation plans. The 2001 Plan provides a broad variety of share−based compensation alternatives. This is a broad based plan that had a total of 169 participants as of December 31, 2009. To date, awards under the 2001 Plan consist of non−qualified stock options and non−vested (restricted) stock. We also maintain the 1991 Plan, which expired during 2001. Only non−qualified stock options are currently outstanding under the 1991 Plan, and no further awards may be granted under the 1991 Plan.

Options under the 2001 Plan and the 1991 Plan vest over two to five years of service. Vesting may be accelerated in certain circumstances prior to the original vesting date. There is a limited term in which the optionee can exercise stock options, known as the option term. Options under the 2001 Plan have an option term of five to ten years. Options under the 1991 Plan have a term of ten years. As discussed above, a stock option becomes valuable only if our Common stock price increases above the option exercise price and the holder of the option remains employed during the period required for the option to "vest"; therefore, these options provide an incentive for the holders to remain employed by us.

No stock options were granted to the NEOs during 2009.

Non−Vested (Restricted) Stock

Awards of non−vested (restricted) stock are designed to focus on the long−term performance of the Company for the duration of an executive's career and are subject to forfeiture until certain specified events occur (generally, retirement age, death, disability or a change in control). These features enhance our ability to retain, throughout their entire careers, those individuals who are key to the creation of shareholder value. Shares of non−vested (restricted) stock are shares of our Common stock which may not be sold or disposed of, and which may be forfeited in the event of termination of employment, prior to the end of a restricted period. A participant

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granted non−vested (restricted) stock generally has all of the rights of a shareholder of the Company, including the right to vote and the right to receive dividends. Awards of non−vested (restricted) stock are granted at no cost to the employee.

The grant date fair value of the non−vested (restricted) stock awarded to the NEOs during 2009 is shown in the 2009 Grants of Plan−Based Awards Table presented in this proxy statement.

Authorization of Share−Based Awards

The Committee approves the grant of share−based compensation to the CEO. The Committee has delegated to the CEO the authority to grant options and make awards of shares under our stock plans to all other employees. The amounts granted to employees vary each year and are based on the discretion of the Committee in the case of the CEO and the discretion of the CEO in the case of all other employees.

Additional long−term incentive compensation information related to the NEOs is included in the Summary Compensation Table, the 2009 Grants of Plan Based Awards Table and the Outstanding Equity Awards as of December 31, 2009 Table presented in this proxy statement.

Other than in connection with the CEO's annual incentive opportunity, as discussed below, we do not have a formal policy or timetable for the granting of share−based compensation. Generally, we consider grants annually, during performance reviews or upon hiring. The exercise price for each award is the closing market value of our Common stock on the date of grant.

Chief Executive Officer

Each year, our CEO, Mr. Nahmad, has an annual incentive opportunity based upon the increase, if any, in EPS and stock price of the Company. Effective January 1, 2009, we amended and renewed, and the Committee subsequently approved, an amendment to our employment agreement with Mr. Nahmad, dated January 31, 1996 (the "CEO Agreement"). Under the terms of the CEO Agreement, Mr. Nahmad may earn this annual incentive award pursuant to and under the 2001 Plan. Mr. Nahmad must be employed for the entire year to be entitled to his annual incentive award for such year, unless the Committee otherwise specifically determines that such amounts are to be paid. The Committee and Mr. Nahmad mutually agree, within the first 90 days of the calendar year, on the metrics to be used in determining performance−based compensation for the applicable year. Such metrics are administered by the Committee and documented in the form of an amendment to the CEO Agreement, which is filed with the SEC.

For 2009, the CEO's incentive compensation was determined using the following formula:

		Annual Incentive Compensation for CEO
A.	**Earnings Per Share**	
	For each $.01 increase	$ 65,250
B.	**Increase in Common Stock Price**	
	(i) If the closing price of a share of Common stock on 12/31/09 failed to exceed $38.40	$ 0
	(ii) If the closing price of a share of Common stock on 12/31/09 exceeded $38.40 but did not equal or exceed $44.15, for each $0.01 increase in per share price of a share of Common stock above $38.40	$ 1,200
	(iii) If the closing price of a share of Common stock on 12/31/09 equaled or exceeded $44.15, for each $0.01 increase in per share price of a share of Common stock above $38.40	$ 1,800

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For 2009, the CEO’s incentive compensation had two components: (1) cash compensation limited to $5,000,000 and (2) any amount earned in excess of $5,000,000 payable with non−vested (restricted) Class B common stock. The number of non−vested (restricted) shares potentially issued was based on: (i) the amount by which the incentive compensation earned exceeded $5,000,000 multiplied by a factor of two; divided by (ii) the closing price for the Class B common stock of the Company on the NYSE Amex as of the close of trading on December 31, 2009. Non−vested (restricted) shares earned, if any, vest in their entirety on October 15, 2018.

For 2009, based on the change in the closing price of our Common stock, Mr. Nahmad was entitled to receive $1,904,400 in cash incentive compensation. Due to the current business and economic environment, Mr. Nahmad and the Committee modified the CEO Agreement to issue Mr. Nahmad shares of non−vested (restricted) Class B common stock in accordance with the formula described above in lieu of such cash compensation. Therefore, the number of shares of Class B common stock issued to Mr. Nahmad was calculated based on incentive compensation of $3,808,800 (i.e. two−times the cash amount to which Mr. Nahmad was otherwise entitled). In total, we issued to Mr. Nahmad 76,635 shares of non−vested (restricted) Class B common stock, which vest in their entirety on October 15, 2018, plus $40 in cash.

Senior Vice President, Vice President and Chief Financial Officer

Annual incentives to the SVP, VP and CFO are intended to reward individual performance during the year and therefore may vary considerably from year to year. Because they are not directly responsible for the financial performance of any of our subsidiaries, our CEO determines cash bonuses for our SVP, VP and CFO based on their general responsibilities, and the CEO’s determination is submitted to the Committee for its approval. Some of the factors considered when determining these bonuses include, but are not limited to, the overall financial performance of the Company, the performance of the department or function that each executive leads and an assessment of each executive’s performance against expectations. There were no bonuses paid during 2009 for the SVP, VP and CFO.

Section 162(m) Limitations

The Committee structures compensation programs for the CEO so as to link the achievement of key performance objectives to the appreciation in the price of the Company’s stock. We intend for the variable compensation paid to the CEO to be performance based within the meaning of Section 162(m) of the Internal Revenue Code so as to be tax deductible by the Company, which benefits our shareholders. In order to be performance based, the compensation must be paid pursuant to a shareholder approved plan and must be based upon the attainment of objective performance criteria that are set forth in that plan. The Committee believes that tax deductibility of compensation is an important factor, but not the sole factor, in setting executive compensation policy and in rewarding superior performance. Accordingly, although the Committee generally intends to avoid the loss of a tax deduction due to Section 162(m), it reserves the right to pay amounts that are not deductible in appropriate circumstances. In determining variable compensation programs, we consider other tax and accounting implications of particular forms of compensation; however, the forms of compensation utilized are determined primarily by their effectiveness in providing maximum alignment with key strategic objectives and the interest of our shareholders.

Other Executive Benefits and Programs

A limited number of other executive benefits and programs are available to our NEOs. We offer these benefits and programs as part of the total compensation package which is reviewed periodically by the Committee. The Committee most recently reviewed such benefits in 2009. A list of specific benefits is noted below:

Employee Stock Purchase Plan

A broad−based employee stock purchase plan is maintained to enable eligible employees to purchase our stock at a discounted rate, thereby keeping our employees’ interests aligned with the interests of our

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shareholders. Executives (other than our CEO) may participate in this plan on the same basis as all other eligible employees. After ninety days of employment, eligible employees may elect to contribute through payroll deductions or lump sum contributions up to $25,000 in one calendar year based on calculating the fair market value at the beginning of the purchase period, as defined. Shares are purchased at a 5% discount to the closing share price of our Common stock at specified times subject to certain restrictions.

Health and Welfare Benefits

We offer a variety of health and welfare programs to all eligible employees. Executives generally are eligible for the same benefit programs on the same basis as the rest of our employees. The health and welfare programs are intended to protect employees against catastrophic loss and encourage a healthy lifestyle. Our health and welfare programs include medical, wellness, pharmacy, dental, vision, and life, accidental death and disability insurance.

Company Airplane

Pursuant to his employment agreement, Mr. Nahmad has limited access to our corporate aircraft for personal use, and the value of such use is included in his annual compensation. We review the aircraft flight logs and categorize the flights into business and non−business related flights to determine Mr. Nahmad's personal use of the aircraft. The value of the personal use of the Company aircraft is determined following Internal Revenue Service ("IRS") guidelines.

Pension Plans

While we do not provide a defined benefit pension plan or supplemental executive retirement plan, we provide to all of our eligible employees a profit sharing retirement plan that is qualified under Section 401(k) of the Internal Revenue Code. Under the plan, we may make matching contributions in our discretion, which may be in the form of our Common stock or cash. For 2009, we elected to match 50% of each participant's contributions up to a maximum 0.75% of such participant's compensation (as defined under the plan) in the form of our Common stock.

Other Compensation

We provide our NEOs with other benefits reflected in the All Other Compensation column in the Summary Compensation Table presented in this proxy statement that we believe are reasonable, competitive and consistent with our overall executive compensation program. The costs of these benefits constitute only a small amount of each NEOs total compensation.

Severance Plan

We do not have severance agreements with any of our NEOs.

Employment Agreements

Except for Mr. Nahmad's agreement discussed in the Executive Compensation section of this proxy statement, there are no other employment agreements with any of the other NEOs.

Acceleration of Vesting; Change in Control

Under the 2001 Plan and 1991 Plan, the Committee or the Board may, in its discretion, accelerate the exercisability, the lapsing of restrictions or the expiration of deferral or vesting periods of any award, and such accelerated exercisability, lapse, expiration and if so provided in the award agreement, vesting shall occur

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automatically in the case of a "change in control" of the Company. Except in the case of our CEO, a "change in control" generally means (a) approval by shareholders of any reorganization, merger or consolidation or other transaction or series of transactions if persons who were shareholders immediately prior to such reorganization, merger or consolidation or other transaction do not, immediately thereafter, own more than 50% of the combined voting power of the reorganized, merged or consolidated company's then outstanding, voting securities, or a liquidation or dissolution of the Company or the sale of all or substantially all of the assets of the Company (unless the reorganization, merger, consolidation or other corporate transaction, liquidation, dissolution or sale is subsequently abandoned), (b) a change in the composition of the Board such that the persons constituting the current Board, and subsequent directors approved by the current Board (or approved by such subsequent directors), cease to constitute at least a majority of the Board, or (c) the acquisition (other than from the Company) by any person or group of people of more than 50% (a "Controlling Interest") of the outstanding shares or combined voting power of the Company's stock or outstanding securities entitled to vote generally in the election of directors (other than acquisitions by the Company or its subsidiaries, any person who owns a Controlling Interest on the effective date of the 2001 Plan, or any employee benefit plan of the Company or its subsidiaries).

In the case of our CEO, a "change in control" means (a) the acquisition by any person, entity or group of beneficial ownership or 20% or more of the outstanding shares of any class of common stock entitled to vote in the election of any directors of the Company; provided, however, that the acquisition of any shares owned by or for the benefit of the CEO or the CEO's spouse or descendants shall not be taken into account for this purpose; or (b) the election to the Board of the Company, without the recommendation or approval of the incumbent Board of the Company, of directors constituting a majority of the number of directors of the Company then in office; or (c) approval by shareholders of (i) a reorganization, merger or consolidation with respect to which persons who were the shareholders of the Company immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than 50% of the combined voting power entitled to vote in the election of directors of the reorganized, merged or consolidated company's then outstanding voting securities, (ii) a liquidation or dissolution of the Company or (iii) the sale of all or substantially all of the assets of the Company.

Indemnification Agreements

We do not have indemnification agreements with any of our NEOs.

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COMPENSATION TABLES

2009 Summary Compensation Table

The following table sets forth the compensation earned by the NEOs for services rendered for the years ended December 31, 2009, 2008 and 2007.

Name and Principal Position	Year	Salary ($) (1)	Bonus ($)	Stock Awards ($) (2)	Non−Equity Incentive Plan Compensation ($) (3)	All Other Compensation ($)	Total Compensation ($)
Albert H. Nahmad (4)	2009	$ 990,000	—	$ 3,808,760	$ 40	$ 63,042	$ 4,861,842
Chief Executive Officer	2008	$ 1,100,000	—	—	—	$ 54,396	$ 1,154,396
	2007	$ 998,000	—	—	—	$ 63,032	$ 1,061,032
Barry S. Logan (5)	2009	$ 337,625	—	—	—	$ 1,838	$ 339,463
Senior Vice President	2008	$ 365,000	—	$ 430,400	—	$ 3,450	$ 798,850
	2007	$ 365,000	—	$ 525,700	—	$ 3,375	$ 894,075
Paul W. Johnston (6)	2009	$ 231,250	—	—	—	$ 1,808	$ 233,058
Vice President	2008	$ 250,000	—	$ 215,200	—	$ 3,450	$ 468,650
	2007	$ 234,492	$ 125,000	$ 535,300	—	$ 3,375	$ 898,167
Ana M. Menendez (5)	2009	$ 185,000	—	—	—	$ 1,446	$ 186,446
Chief Financial Officer	2008	$ 200,000	—	$ 215,200	—	$ 3,000	$ 418,200
	2007	$ 191,178	$ 80,000	—	—	$ 3,375	$ 274,553

(1) Each of the NEOs contributed a portion of their salary to our Profit Sharing Plan.

(2) The amounts in this column represent the grant date fair value of the non−vested (restricted) stock awards computed in accordance with FASB ASC Topic 718. This amount of share−based compensation expense will be recognized over the relevant vesting period by the Company. For additional information regarding assumptions underlying the valuation of equity awards and the calculation method, please refer to Note 6 to our consolidated financial statements, which are contained in our Annual Report to Shareholders, filed with the SEC as Exhibit 13 to our 2009 Annual Report on Form 10−K. For further information on the CEO’s incentive plan, see discussion in the Compensation Discussion and Analysis section of this proxy statement.

(3) This award, the terms of which are discussed in the Compensation Discussion and Analysis section of this proxy statement, were earned in the year reported.

(4) For Mr. Nahmad, all other compensation in 2009 includes (i) $51,832 related to use of our aircraft pursuant to his employment agreement; (ii) $9,372 related to health insurance benefits paid and (iii) $1,838 related to the Profit Sharing Plan matching contribution. The value of the personal use of the Company aircraft is based on IRS guidelines.

(5) For Mr. Logan and Ms. Menendez, all other compensation in 2009 is related to the Profit Sharing Plan matching contribution.

(6) Mr. Johnston was not a NEO for 2007. All other compensation in 2009 is related to the Profit Sharing Plan matching contribution.

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2009 Grants of Plan−Based Awards

This table discloses the number of non−vested (restricted) stock awards granted to our NEOs during 2009 and the grant date fair value of these awards. No options to purchase shares of Common stock were granted to our NEOs during 2009.

		Estimated Future Payouts Under Non−Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards				
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#) (2)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units (#) (3)	Grant Date Fair Value of Stock and Option Awards ($) (4)
Albert H. Nahmad	12/31/09	$ 0	$ 0	(1)	0	76,635	(1)	76,635	$ 3,808,760

(1) As described earlier in this proxy statement, Mr. Nahmad has an annual incentive opportunity based upon the increase in EPS and stock price of the Company.
(2) Amount shown is based on the number of non−vested (restricted) shares granted in the previous year. For further information on the CEO’s incentive plan, see discussion in the Compensation Discussion and Analysis section of this proxy statement.
(3) Amount shown represents the number of non−vested (restricted) shares of Class B common stock granted in 2009.
(4) The grant date fair value of the non−vested (restricted) stock awards represents the total amount of share−based compensation expense that we will recognize over the relevant vesting period.

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Outstanding Equity Awards as of December 31, 2009

The following table shows outstanding stock option awards classified as exercisable and unexercisable as of December 31, 2009 for the NEOs. The table also shows non−vested (restricted) stock awards outstanding as of December 31, 2009.

	Option Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($) (1)
Albert H. Nahmad (2)	100,000	—	$ 11.30	9/24/2011	—	—
	—	—	—	—	1,336,446	$66,421,366
Barry S. Logan (3)	—	—	—	—	178,750	$ 8,805,575
Paul W. Johnston (4)	10,000	—	$ 17.09	6/17/2012	—	—
	20,000	—	$ 16.44	7/22/2013	—	—
	—	—	—	—	37,500	$ 1,836,750
Ana M. Menendez (5)	15,000	—	$ 9.63	11/03/2010	—	—
	15,000	—	$ 12.95	11/03/2011		
	15,000	—	$ 21.95	11/03/2013	—	—
	—	—	—	—	40,000	$ 1,959,200

(1) Based on the respective closing market price of our Common and Class B common stock on December 31, 2009.

(2) All of Mr. Nahmad's awards represent non−qualified options or stock awards as to shares of Class B common stock. The option award expiring in 2011 was granted under the 2001 Plan. All of Mr. Nahmad's option awards are fully vested as of December 31, 2009. Mr. Nahmad's stock awards will vest upon the earlier of October 15, 2018 or his death or disability.

(3) Mr. Logan's stock awards represent 108,750 as to shares of Common stock and 70,000 as to shares of Class B common stock. Mr. Logan's stock awards will vest upon the earlier of December 14, 2024, when he reaches retirement age, or his death or disability.

(4) All of Mr. Johnston's awards represent non−qualified options or stock awards as to shares of Common stock. All option awards were granted under the 2001 Plan. All of Mr. Johnston's option awards are fully vested as of December 31, 2009. Mr. Johnston's stock awards will vest upon the earlier of May 22, 2014, when he reaches retirement age, or his death or disability.

(5) All of Ms. Menendez's awards represent non−qualified options or stock awards as to shares of Common stock. The option award expiring in 2010 was granted under the 1991 Plan. The option awards expiring in 2011 and 2013 were granted under the 2001 Plan. All of Ms. Menendez's option awards are fully vested as of December 31, 2009. Ms. Menendez's stock awards will vest upon the earlier of December 2, 2026, when she reaches retirement age, or her death or disability.

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2009 Option Exercises and Stock Vested

The following table sets forth certain information regarding options exercised during 2009 for the NEOs. No stock awards vested during 2009 for the NEOs, therefore these columns are excluded from the following table.

	Option Awards	
Name	Number of Shares Acquired on Exercise	Value Realized on Exercise (1)
Albert H. Nahmad	400,000	$ 13,547,500
Barry S. Logan	87,500	$ 3,267,594
Paul W. Johnston	—	—
Ana M. Menendez	10,000	$ 425,000

(1) Calculated based on the difference between the market price on the date of exercise and the exercise price of the option.

Potential Payments Upon Termination or Change of Control

There are no potential payments upon termination or change of control agreements with any of our NEOs. However, as discussed earlier in this proxy statement, the CEO’s share−based compensation agreements have provisions that provide for accelerated vesting due to a change in control. In the event that vesting is accelerated under these agreements, any unrecognized share−based compensation expense would be immediately recognized. At December 31, 2009, there was approximately $25,000,000 of unrecognized share−based compensation expense for shares of non−vested (restricted) stock related to awards granted to our CEO. See “Acceleration of Vesting; Change in Control” under the “Other Executive Benefits and Programs” section of the Compensation Discussion and Analysis in this proxy statement.

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AUDIT−RELATED MATTERS

Report of the Audit Committee

The following report of the Audit Committee shall not be deemed to be "soliciting material" or to be "filed" with the SEC nor shall this information be incorporated by reference into any future filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into a filing.

The role of the Audit Committee is to assist the Board in its oversight of the integrity of the Company's financial reporting process and internal control environment, including compliance with legal and regulatory requirements. The Board, in its business judgment, has determined that each current member of the Audit Committee is "independent", as required by applicable listing standards of the NYSE, NYSE Amex and the Sarbanes−Oxley Act of 2002 and applicable rules of the SEC.

The Audit Committee reviews the Company's financial reporting process on behalf of the Company's Board. Management has the primary responsibility for the financial statements and the reporting process, including the system of internal controls.

The Audit Committee has met and held discussions with management and the Company's internal auditors and independent registered public accounting firm. The Audit Committee has reviewed and discussed the audited consolidated financial statements with management and the independent registered public accounting firm. Consistent with the requirements of the Sarbanes−Oxley Act of 2002 and the rules promulgated thereunder, the Audit Committee discussed with the independent registered public accounting firm those matters required to be discussed by Statement on Auditing Standards ("SAS") No. 61, "Communication with Audit Committees," as amended and adopted by the Public Company Accounting Oversight Board ("PCAOB") in Rule 3200T and the rules of the SEC.

In addition, the Audit Committee has discussed with the independent registered public accounting firm the firm's independence from Company management and the Company and has reviewed the written disclosures and letter from the independent registered public accounting firm pursuant to applicable requirements of the PCAOB regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence.

The Audit Committee has discussed with the Company's internal auditors and independent registered public accounting firm the overall scope and plans for their respective audits. The Audit Committee has met with the internal auditors and independent registered public accounting firm, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, the Audit Committee has recommended that the audited consolidated financial statements be included in the Company's Annual Report on Form 10−K for the year ended December 31, 2009.

AUDIT COMMITTEE

Paul F. Manley, Co−Chairperson
Denise Dickins, Co−Chairperson
George P. Sape

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Auditor Fees and Services

The table below summarizes the fees and expenses billed by our independent registered public accountants for the years ended December 31, 2009 and 2008. There were no other non−audit services, fees or expenses for the years ended December 31, 2009 and 2008, therefore, the column was excluded from the following table.

KPMG LLP

Year	Audit Fees	Audit−Related Fees	Tax Fees	Total
2009	$ 1,307,000	$ 400,000	$ 129,000	$ 1,836,000

GRANT THORNTON LLP

Year	Audit Fees	Audit−Related Fees	Tax Fees	Total
2009	$ 107,000	$ 19,000	—	$ 126,000
2008	$ 1,308,000	$ 81,000	$ 52,000	$ 1,441,000

Audit fees for 2009 and 2008 were for professional services rendered for (i) the audits of our consolidated financial statements and of our internal controls over financial reporting in accordance with Section 404 of the Sarbanes−Oxley Act of 2002 and (ii) the reviews of interim financial statements included in our Forms 10−Q.

Audit−related fees represent professional services related to due diligence procedures performed in connection with acquisition−related activities in 2009 and 2008.

Tax fees for 2009 relate to tax compliance and tax planning services. Tax fees for 2008 represent fees and expenses for professional services related to final tax returns in connection with a 2007 acquisition.

The Audit Committee has considered the compatibility of the provision of services covered by the two preceding paragraphs with the maintenance of the principal accountant's independence from the Company and has determined that the provision of such services is not incompatible with the maintenance of such independence.

The Audit Committee annually reviews the performance of the independent registered public accounting firm and the fees and expenses charged for their services.

Policy for Approval of Audit and Permitted Non−Audit Services

The Audit Committee is responsible for the appointment, compensation, retention and oversight of the work of our independent registered public accounting firm. During 2009, the Audit Committee solicited proposals from several major accounting firms and conducted an extensive evaluation process in connection with the selection of the independent auditor for the Company. Following this process, on June 23, 2009, the Audit Committee dismissed Grant Thornton LLP as its independent auditor and appointed KPMG, LLP as the Company's independent auditor beginning with the interim period ended on June 30, 2009.

Grant Thornton's audit reports on the Company's consolidated financial statements for the fiscal year ended December 31, 2008 did not contain an adverse opinion or disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or accounting principles. During the Company's fiscal year ended December 31, 2008 and the subsequent interim period from January 1, 2009 through June 23, 2009, (i) there were no disagreements between the Company and Grant Thornton LLP on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Grant Thornton LLP, would have caused Grant Thornton LLP to make reference to the subject matter of the disagreement in its report on the Company’s consolidated financial statements, and (ii) there were no “reportable events” as that term is defined in Item 304(a)(1)(v) of Regulation S−K. During the fiscal year ended December 31, 2008 and the subsequent interim period from January 1, 2009 through June 23, 2009, neither the Company nor anyone acting on behalf of the Company consulted KPMG LLP regarding any of the matters or events set forth in Item 304(a)(2) of Regulation S−K.

Our independent registered public accounting firm reports directly to the Audit Committee. As part of its responsibility, the Audit Committee has established a policy requiring the pre−approval of all audit and permissible non−audit services performed by our independent registered public accounting firm. In pre−approving services, the Audit Committee considers whether such services are consistent with the SEC’s rules on auditor independence.

Prior to the engagement of the independent registered public accounting firm for an upcoming audit/non−audit service period, defined as a twelve−month period, KPMG LLP submits a detailed list of services expected to be rendered during that period as well as an estimate of the associated fees for each of the following four categories of services to the Audit Committee for approval:

Audit Services consist of services rendered by an independent registered public accounting firm for the audit of our consolidated financial statements (including tax services performed to fulfill the auditor’s responsibility under generally accepted auditing standards) and our internal control over financial reporting, reviews of the interim financial statements included in Forms 10−Q and includes services that generally only an external auditor can reasonably provide, such as comfort letters, statutory audits, attest services, consents and assistance with and review of documents filed with the SEC.

Audit−Related Services consist of assurance and related services (e.g., due diligence) by an external auditor that are reasonably related to audit or review of financial statements, including employee benefit plan audits, due diligence related to mergers and acquisitions, accounting consultations and audits in connection with proposed or consummated acquisitions, internal control reviews, attest services related to financial reporting that are not required by statute or regulation, and consultation concerning financial accounting and reporting standards.

Tax Services consist of services not included in Audit Services above, rendered by an external auditor for tax compliance, tax consulting and tax planning.

Other Non−Audit Services are any other permissible work that is not an Audit, Audit−Related or Tax Service.

Circumstances may arise during the twelve−month period when it may become necessary to engage the independent registered public accounting firm for additional services or additional effort not contemplated in the original pre−approval. In those instances, the Audit Committee requires specific pre−approval before engaging the independent registered public accounting firm.

A representative from KPMG LLP is expected to attend the 2010 annual meeting of shareholders and will have the opportunity to make a statement and answer questions. We do not expect that a representative from Grant Thornton LLP will attend the meeting.

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OTHER BUSINESS

The Board knows of no other business to be brought before the Annual Meeting. If, however, any other business should properly come before the Annual Meeting, the persons named in the accompanying proxy statement will vote proxies in their discretion as they may deem appropriate, unless they are directed by a proxy to do otherwise.

By order of the Board of Directors,

BARRY S. LOGAN
Senior Vice President and Secretary

April 30, 2010

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WATSCO, INC.
2665 South Bayshore Drive, Suite 901
Coconut Grove, Florida 33133

PROXY FOR COMMON STOCK
2010 ANNUAL MEETING OF SHAREHOLDERS

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints ALBERT H. NAHMAD and BARRY S. LOGAN and each of them, the proxy and true and lawful attorneys and agents for and in the name of the undersigned, with full power of substitution for and in the name of the undersigned, to vote all shares of Common stock, par value $.50, of WATSCO, INC., a Florida corporation (the "Company"). The undersigned is entitled to vote at the 2010 Annual Meeting of Shareholders of the Company to be held at the University Club, 1 West 54th Street, New York, NY 10019 on Friday, June 4, 2010, at 9:30 a.m. local time, and at any and all adjournments thereof, on the following matters:

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" EACH OF THE PROPOSALS SET FORTH BELOW.

The undersigned hereby instructs said proxies or their substitutes:

(1) FOR ☐ WITHHOLD VOTE ☐ To elect Robert L. Berner III as a Common stock director until the annual meeting of shareholders in 2013, or until his successor is duly elected and qualified.

(2) In their discretion, on any other matters which may properly come before the Annual Meeting or any adjournment(s) or postponement(s) thereof.

(SEE REVERSE SIDE)

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(CONTINUED FROM OTHER SIDE)

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED SHAREHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED "FOR" EACH OF THE PROPOSALS.

The undersigned hereby acknowledges receipt of (i) the Company's 2009 Annual Report to Shareholders, (ii) the Proxy Statement and (iii) the Notice of Annual Meeting dated April 30, 2010.

Date:______________________________ , 2010

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Please sign exactly as your name or names appear on this proxy. When shares are held jointly, each holder should sign. When signing as an executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

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WATSCO, INC.
2665 South Bayshore Drive, Suite 901
Coconut Grove, Florida 33133

PROXY FOR CLASS B COMMON STOCK
2010 ANNUAL MEETING OF SHAREHOLDERS

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints ALBERT H. NAHMAD and BARRY S. LOGAN and each of them, the proxy and true and lawful attorneys and agents for and in the name of the undersigned, with full power of substitution for and in the name of the undersigned, to vote all shares of Class B common stock, par value $.50, of WATSCO, INC., a Florida corporation (the "Company"). The undersigned is entitled to vote at the 2010 Annual Meeting of Shareholders of the Company to be held at the University Club, 1 West 54th Street, New York, NY 10019 on Friday, June 4, 2010, at 9:30 a.m. local time, and at any and all adjournments thereof, on the following matters:

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" EACH OF THE PROPOSALS SET FORTH BELOW.

The undersigned hereby instructs said proxies or their substitutes:

(1) FOR ☐ WITHHOLD VOTE ☐ To elect Bob L. Moss and George P. Sape as Class B common stock directors until the annual meeting of shareholders in 2013, or until their successors are duly elected and qualified, except vote withheld from the following nominee ____________ (if any).

(2) In their discretion, on any other matters which may properly come before the Annual Meeting or any adjournment(s) or postponement(s) thereof.

(SEE REVERSE SIDE)

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(CONTINUED FROM OTHER SIDE)

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED SHAREHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED "FOR" EACH OF THE PROPOSALS.

The undersigned hereby acknowledges receipt of (i) the Company's 2009 Annual Report to Shareholders, (ii) the Proxy Statement and (iii) the Notice of Annual Meeting dated April 30, 2010.

Date: ______________________________ , 2010

____

____

Please sign exactly as your name or names appear on this proxy. When shares are held jointly, each holder should sign. When signing as an executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

EXHIBIT IV

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF WATSCO, INC. AND ARTICLES OF AMENDMENT TO THE AMENDED AND RESTATED ARTICLES OF INCORPORATION OF WATSCO, INC.

AMENDED AND RESTATED ARTICLES OF INCORPORATION

AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF
WATSCO, INC.

ARTICLE I

The name of the Corporation is Watsco, Inc.

ARTICLE II

The post office address of the principal office of this corporation in the State of Florida is 2665 S. Bayshore Drive, Suite 901, Coconut Grove, Florida 33133. The Board of Directors may from time to time move the office to any other place in or outside the State of Florida.

ARTICLE III

A. The aggregate number of shares of Capital Stock which the Corporation shall have the authority to issue is 70,000,000 shares, of which 60,000,000 shares, at the par value of $.50 per share, shall be designated as Common Stock and 10,000,000 shares, at the par value of $.50 per share, shall be designated as Class B Common Stock.

B. The Common Stock and the Class B Common Stock shall be identical in all respects and shall have equal rights and privileges, except as otherwise provided in this Article III.

(1) DIVIDENDS: Subject to sub-paragraph 2 below, whenever a dividend is paid to the shareholders of Class B Common Stock, the Corporation shall also pay to the holders of Common Stock a dividend per share at least equal to the dividend per share paid to the holders of the Class B Common Stock.
The Corporation may pay dividends to the holders of Common Stock in excess of dividends paid (or without paying dividends) to holders of Class B Common Stock.

(2) STOCK DISTRIBUTIONS: If at any time a stock distribution is to be paid, such stock distribution may be declared and paid only as follows:

(a) So long as no shares of Common Stock have been issued or are outstanding, shares of Common Stock may be paid to holders of Class B Common Stock.

(b) Shares of Common Stock may be paid to holders of Common Stock and shares of Class B Common Stock may be paid to holders of Class B Common Stock.

(c) Whenever a stock distribution is paid, the same number of shares shall be paid with respect to each outstanding share of Common Stock or Class B Common Stock. The Corporation shall not combine or subdivide shares of either class without at the same time making an appropriate combination or subdivision of shares of the other class.

(3) VOTING: Voting power shall be divided between the Common Stock and Class B Common Stock as follows:

(a) With respect to the election of directors, holders of Common Stock, voting as a separate class, shall be entitled to elect that number of directors which constitute 25% of the authorized members of the Board of Directors and, if such 25% is not a whole number, the holders of such Common stock shall be entitled to elect the nearest higher whole number of directors that is at least 25% of such membership. Holders of Class B Common Stock, voting as a separate class, shall be entitled to elect the remaining directors.

(b) The holders of Common Stock shall be entitled to vote as a separate class on the removal, with or without cause, of any director elected by the holders of Common Stock and the holders of Class B Common Stock shall be entitled to vote as a separate class on the removal, with or without cause, of any director elected by the holders of Class B Common Stock.

(c) The holders of the Common Stock and the holders of the Class B Common Stock shall be entitled to vote as separate classes on such other matters as may be required by law or these Amended and Restated Articles of Incorporation to be submitted to such holders voting as separate classes.

(d) Any vacancy in the office of a director elected by the holders of the Common Stock may be filled by a vote of such holders voting as a separate class and any vacancy in the office of a director elected by the holders of the Class B Common Stock may be filled by a vote of such holders acting as a separate class or, in the absence of a shareholder vote, in the case of a vacancy of a director elected by either class, such vacancy may be filled by the remaining directors as provided in the By-Laws. Any director elected by the Board of Directors to fill a vacancy shall serve until the next election of directors by shareholders and his or her successor has been elected and qualified.

(e) The holders of Common Stock and Class B Common Stock shall in all matters not specified in Sections (a), (b), (c) or (d) of this sub-paragraph 3 ("VOTING") vote together as a single class; provided that the holders of Common Stock shall have one (1) vote per share and the holders of Class B Common Stock shall have ten (10) votes per share.

(f) The Common Stock will not have the right to elect the directors set forth in paragraphs (a) and (d) above if, on the record date for any shareholder meeting at which directors are to be elected, the number of issued and outstanding shares of Common Stock is less than ten percent (10%) of the aggregate number of issued and outstanding shares of Common Stock and Class B Common Stock. In such cases, all directors to be elected at such meeting shall be elected by holders of Common Stock and Class B Common Stock voting together as a single class, provided that, with respect to said election, the holders of Common Stock will have one (1) vote per share and holders of Class B Common Stock, will have ten (10) votes per share.

(g) If, on the record date for any shareholder meeting at which directors are to be elected, the number of issued and outstanding shares of Class B Common Stock is less than 12-1/2% of the aggregate number of issued and outstanding shares of Common Stock and Class B Common Stock, then the holders of Common Stock shall continue to elect a number of Class A Directors equal to 25% of the total number of directors constituting the entire board of directors and, in addition, shall vote together with the holders of Class B Common Stock to elect the Class B Directors to be elected at such meeting, with the holders of Common Stock entitled to one (1) vote per share and the holders of Class B Common Stock entitled to ten (10) votes per share.

(h) Notwithstanding anything in this sub- paragraph 3 ("VOTING") to the contrary, the holders of Common Stock shall have exclusive voting power on all matters at any time when no Class B Common Stock is issued and outstanding.

(4) CONVERSION: Each holder of record of Class B Common Stock may at any time or may from time to time, in such holders' sole discretion and at such holders' option, convert any whole number or all of such holders' Class B Common Stock into fully paid and non-assessable shares of Common Stock at the rate of one share of Common Stock for each share of Class B Common Stock surrendered for conversion. Any such conversion may be effected by any holder of Class B Common Stock surrendering such holder's certificate or certificates for the Class B Common Stock to be converted, duly endorsed, at the office of the Corporation or any transfer agent for the Class B Common Stock, together with written notice to the Corporation at such office that such holder elects to convert all or a specified number of Class B Common Stock and stating the name or names in which such holder desires the certificate or certificates for such Common Stock to be issued. Promptly thereafter, the Corporation shall issue and deliver to such holder or holder's nominee, a certificate or certificates for the number of shares of Common Stock to which such holder will be entitled as aforesaid. Such conversion shall be deemed to have been made at the close of business at date of such surrender and the person or persons entitled to receive the Common Stock issuable on such conversion shall be treated for all purposes as the record holder or holders of such Common Stock on that date.

No fractional shares of Common Stock shall be issued on conversion of any Class B Common Stock but, in lieu thereof, the Corporation shall pay in cash therefor the pro rata fair market value of any such fraction. Such fair market value shall be based, in the case of publicly traded securities, on the last sale price for such securities on the business day next prior to the date such fair market value is to be determined or, in the event no sale is made on that day, the average of the closing bid and ask prices for that day on the principal stock exchange on which the Common Stock is traded or, if the Common Stock is not then listed on a national securities exchange, the average of the closing bid and ask prices for the day quoted by the NASDAQ System or, if the Common Stock is not then quoted by the NASDAQ System, the fair market value on such day determined by a qualified independent appraiser who is expert in evaluating such property and appointed by the Board of Directors of the Corporation. Any such determination of fair market value shall be final and binding on the Corporation and on each holder of Common Stock or Class B Common Stock.

ARTICLE IV

This Corporation shall have perpetual existence.

ARTICLE V

The Corporation shall have not less than three directors and not more than nine to be divided, as nearly as possible, into three equal classes, Class A, Class B, and Class C to serve in staggered terms of office of three years apiece.

Therefore, approximately one-third of the members of the Board of Directors shall be elected every three years to serve for a term of three years until their successors are duly elected and qualified. Vacancies in the Board of Directors shall be filled by the majority of the directors remaining in office for the unexpired term of office created by the vacancy; provided, however, that vacancies created by an increase in the number of directors by the Board of Directors between annual stockholders meetings shall be filled by a majority of the directors remaining in office until the next annual meeting of stockholders.

ARTICLE VI

The Corporation reserves the right to amend or repeal any provision contained in these Amended and Restated Articles of Incorporation, and any right conferred upon the shareholders is subject to this reservation.

The By-Laws of the Corporation may be amended from time to time by either the shareholders or the directors, but the directors may not alter or amend any By-Law adopted by the shareholders.

Ownership of stock shall not be required to make any person eligible to hold office either as an officer or director of this Corporation.

The shareholders may, by By-Law provision or by shareholders' agreement, recorded in the minute book, impose such restrictions on the sale, transfer, or encumbrance of the stock of this Corporation as they may see fit.

Any subscriber or stockholder present at any meeting, either in person or by proxy, and any director present in person at any meeting of the Board of Directors shall conclusively be deemed to have received proper notice of such meeting unless he shall make objection at such meeting to any defect or insufficiency of notice.

Any contract or other transaction between the Corporation and one or more of its directors, or between the Corporation and any firm of which one or more of its directors are members or employees, or in which they are interested, or between the Corporation and any corporation or association of which one or more of it directors are shareholders, members, directors, officers, or employees, or in which they are interested, shall be valid for all purposes, notwithstanding the presence of such director or directors at the meeting of the Board of Directors of the Corporation, which acts upon, or in reference to, such contract or transaction, and notwithstanding his or their participation in such action, if the fact of such interest shall be disclosed or known to the Board of Directors and the Board of Directors shall, nevertheless, authorize, approve and ratify such contract or transactions by a vote of a majority of the directors present, such interested director or directors to be counted in determining whether a quorum is present, but not to be counted in calculating the majority necessary to carry such vote. This section shall not be construed to invalidate any contract or other transaction which would otherwise be valid under the common and statutory law applicable thereto.

The Board of Directors is hereby specifically authorized to make provisions for reasonable compensation to its members for their services as directors, and to fix the basis and conditions upon which such compensation shall be paid. Any director of the Corporation may also serve the Corporation in any other capacity and receive compensation in any form.

ARTICLE VII

The Corporation shall indemnify any director, officer, or employee, or former director, officer or employee of the Corporation, or any person who may have served at its request as a director, officer or employee of another corporation in which it owns shares of capital stock, or of which it is a creditor, against expenses actually and necessarily incurred by him in connection with the defense of any action suit or proceeding in which he is made a party by reason of being or having been such director, officer or employee, except in relation to matters as to which he shall be adjudged in such action, suit or proceeding to be liable for negligence or misconduct in the performance of duty. The Corporation may also reimburse to any director, officer or employee the reasonable costs of settlement of any such action, suit or proceeding, if it shall be found by a majority of a committee composed of the directors not involved in the matter in controversy (whether or not a quorum) that it was to the interests of the corporation that such settlement be made and that such director, officer or employee was not guilty of negligence or misconduct. Such rights of indemnification and reimbursement shall not be deemed exclusive of any other rights to which such director, officer or employee may be entitled under any By-Law, agreement, vote of shareholders, or otherwise.

ARTICLE VIII

No shareholder of the Corporation shall have any right to purchase his pro rata share of any new issue of securities of any kind or class of the Corporation, sold by the Corporation.

WATSCO, INC.

/s/ Barry S. Logan

Barry S. Logan
Vice President - Finance and Secretary

ARTICLES OF AMENDMENT

TO THE

AMENDED AND RESTATED ARTICLES OF INCORPORATION

OF

WATSCO, INC.

Watsco, Inc., a Florida corporation (the "Corporation"), hereby certifies, pursuant to and in accordance with Section 607.1006 of the Florida Business Corporation Act (the "FBCA"), for the purpose of filing these Articles of Amendment to the Amended and Restated Articles of Incorporation (these "Amended Articles") with the Department of State of the State of Florida, that:

1. The name of the Corporation is Watsco, Inc.
2. The Corporation's Articles of Incorporation are hereby amended to provide that vacancies filled by the Board of Directors shall be subject to reelection at the next annual meeting of stockholders of the Corporation by deleting Article V in its entirety and replacing it with Article V set forth below:

"Article V

The Corporation shall have not less than three directors and not more than nine to be divided, as nearly as possible, into three equal classes, Class A, Class B, and Class C to serve in staggered terms of office of three years apiece.

Therefore, approximately one-third of the members of the Board of Directors shall be elected every three years to serve for a term of three years until their successors are duly elected and qualified. Vacancies in the Board of Directors shall be filled by the majority of the directors remaining in office until the next annual meeting of stockholders; and vacancies created by an increase in the number of directors by the Board of Directors between annual stockholders meetings shall be filled by a majority of the directors remaining in office until the next annual meeting of stockholders."

3. The Amended Articles were adopted and approved on April 1, 2009 (i) by a resolution adopted and approved by the directors of the Corporation and (ii) by the affirmative vote of a majority of the outstanding shares of Common stock and Class B common stock of the Company voting together as a class pursuant to Section 607.0704 of the FBCA (the number of votes cast by these voting groups on these Amended Articles was sufficient for approval by these voting groups). The Amended Articles shall be effective upon filing with the Department of State of the State of Florida.

IN WITNESS WHEREOF, the Corporation has caused these Articles of Amendment to the Amended and Restated Articles of Incorporation to be executed by a duly authorized officer of the Corporation as of this 1st day of April, 2009.

WATSCO, INC.

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

ARTICLES OF AMENDMENT

TO THE

AMENDED AND RESTATED ARTICLES OF INCORPORATION

OF

WATSCO, INC.

Watsco, Inc., a Florida corporation (the "Corporation"), hereby certifies, pursuant to and in accordance with Section 607.1006 of the Florida Business Corporation Act (the "FBCA"), for the purpose of filing these Articles of Amendment to the Amended and Restated Articles of Incorporation (these "Amended Articles") with the Department of State of the State of Florida, that:

1. The name of the Corporation is Watsco, Inc.
2. Section A in Article III of the Corporation's Amended and Restated Articles of Incorporation hereby are amended in its entirety to read as follows:

ARTICLE III

> **A.** The aggregate number of shares of Capital Stock which the Corporation shall have the authority to issue is 80,000,000 shares, of which (i) 60,000,000 shares, at the par value of $.50 per share, shall be designated as Common Stock, (ii) 10,000,000 shares, at the par value of $.50 per share, shall be designated as Class B Common Stock and (iii) 10,000,000 shares, at the par value of $.50 per share, shall be designated as Preferred Stock.

3. Section C is hereby added to Article III of the Corporation's Amended and Restated Articles of Incorporation, which shall read as follows:

> **C.** The Preferred Stock may be issued from time to time in one or more series with such distinctive serial designations and (a) may have such voting powers, full or limited, or may be without voting powers; (b) may be subject to redemption at such time or times and at such prices; (c) may be entitled to receive dividends (which may be cumulative or noncumulative) at such rate or rates, on such conditions, and at such times, and payable in preference to, or in such relation to, the dividends payable on any other class or classes or series of stock; (d) may have such rights upon the dissolution of, or upon any distribution of the assets of, the Corporation; (e) may be made convertible into, or exchangeable for, shares of any other class or classes or of any other series of the same or any other class or classes of stock of the Corporation, at such price or prices or at such rates of exchange, and with such adjustments; and (f) shall have such other relative, participating, optional or other special rights, qualifications, limitations, preferences or restrictions thereof, all as may be stated and expressed in the resolution or resolutions providing for the issue of such Preferred Stock from time to time adopted by the Board of Directors pursuant to authority to do so which is hereby vested in the Board of Directors.

4. The Amended Articles were adopted and approved on April 17, 2009 (i) by a resolution adopted and approved by the directors of the Corporation and (ii) by the affirmative vote of a majority of the outstanding shares of Common stock and Class B common stock of the Company voting together as a class pursuant to Section 607.0704 of the FBCA (the number of votes cast by these voting groups on these Amended Articles was sufficient for approval by these voting groups). The Amended Articles shall be effective upon filing with the Department of State of the State of Florida.

IN WITNESS WHEREOF, the Corporation has caused these Articles of Amendment to the Amended and Restated Articles of Incorporation to be executed by a duly authorized officer of the Corporation as of this 17th day of April, 2009.

WATSCO, INC.

By: /s/ Barry S. Logan

Barry S. Logan,
Senior Vice President

EXHIBIT V

BY-LAWS OF WATSCO, INC.
AND AMENDMENT TO THE BY-LAWS OF WATSCO, INC. DATED APRIL 1, 2009

BY-LAWS

OF

WATSCO, INC.

(A FLORIDA CORPORATION)

I N D E X

INDEX (Continued)

BY-LAWS OF

WATSCO, INC.

(A FLORIDA CORPORATION)

ARTICLE I

STOCKHOLDERS

1. CERTIFICATES REPRESENTING STOCK

Every holder of stock in the corporation shall be entitled to have a certificate signed by, or in the name of, the corporation by the President or a Vice President and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the corporation, certifyig the number of shares owned by him in the corporation. If such certificate is countersigned by a transfer agent or registrar other than the corporation or its employees, any other signature on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

Whenever the corporation shall be authorized to issue more than one class of stock or more than one series of any class of stock, and whenever the corporation shall issue shares of its stock as partly paid stock, the certificates representing shares of any such class or series or of any such partly paid stock shall set forth thereon the relative rights or preferences of such stock or the amount remaining unpaid on such shares. Any restrictions on the transfer or registration of transfer of any shares of stock of any class or series shall be noted conspicuously on the certificate representing such shares.

The corporation may issue a new certificate of stock in place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Board of Directors may or may not require the owner of any lost, stolen, or destroyed certificate, or his legal representative, to give the corporation a bond sufficient to indemnify the corporation against any claim that may be made against it on account of the alleged loss, theft, or destruction of any such certificate or the issuance of any such new certificate.

2. FRACTIONAL SHARE INTERESTS AND PARTLY PAID STOCK

The corporation may, but shall not be required to issue fractions of a share. In lieu thereof, it shall either pay in cash the fair market value of fractions of a share, as determined by the Board of Directors, to those entitled thereto, or issue scrip or fractional warrants in registered or bearer form over the manual or facsimile signature of an officer of the corporation or of its agents, exchangeable as therein provided for full shares, but such scrip or fractional warrants shall not entitle the holder to any rights of a stockholder except as therein provided. Such scrip or fractional warrants may be issued subject to the condition that the same shall become void if not exchanged for certificates representing full shares of stock before a specified date, or subject to the condition that the shares of stock for which such scrip or fractional warrants are exchangeable may be sold by the corporation and the proceeds thereof distributed to the holders of such scrip or fractional warrants, or subject to any other conditions which the Board of Directors may determine.

The Board may require subscribers or purchasers of the capital stock of the corporation to pay the amounts due this corporation by them in such manner and in such installments as the Board may, from time to time, by resolution designate. If any stockholder neglects to pay any installment when so required, the Board may, at its discretion and in such manner as it may determine, sell said stock and apply the proceeds to the expense of said sale and to the unpaid installments, returning the balance, if any, to the delinquent subscriber or stockholder.

3. STOCK TRANSFERS

Upon compliance with the provisions restricting the transfer or registration of transfer of shares of stock, if any, transfers or registration of transfers of shares of stock of the corporation shall be made only on the stock ledger of the corporation by the registered holder thereof, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Secretary of the corporation or with a transfer agent or registrar, if any, and on surrender of the certificate or certificates for such shares of stock properly endorsed and the payment of all taxes due thereon.

4. RECORD DATE FOR STOCKHOLDERS

For the purpose of determining the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to or dissent from any corporate action in writing without a meeting, or for the purpose of determining stockholders entitled to receive payments of dividends or other distributions or the allotment of any rights, or entitled to exercise any rights in respect of any change, conversion, or exchange of stock, or for the purpose of any other lawful action, the directors may fix, in advance, a date as the record date for any such determination of stockholders. Such date shall not be more than sixty (60) days, nor less than ten (10) days before the date of such meeting. If no record date is fixed, the record date for the determination of stockholders entitled to notice of or to vote at a meeting of stockholders shall be the close of business on the day next preceding the day on which the meeting is held; the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. Unless the Board of Directors resolves to the contrary, the stock transfer books of the corporation shall remain open on the record date. When a determination of stockholders of record entitled to notice of or to vote at any meeting of stockholders has been made as provided in this paragraph, such determination shall apply to any adjournment thereof, provided, however that the Board of Directors may fix a new record date for the adjourned meeting.

5. STOCKHOLDERS' MEETINGS

(a) Time. The annual meeting shall be held on the date and at the time fixed, from time to time, by the directors, provided, that there shall be an annual meeting every calendar year. Special meetings shall be held on the date and at the time fixed by the Board of Directors.

(b) Place. Annual meetings and special meetings shall be held at such place, within or without the State of Florida, as the directors may, from time to time, fix. Whenever the directors shall fail to fix such place, the meeting shall be held at the principal office of the corporation in the State of Florida.

(c) Call. Annual meetings and special meetings may be called by the directors, by any officer instructed by the directors to call the meeting, or by written request of stockholders holding a majority of the outstanding stock of the corporation.

(d) Notice and waiver of Notice. Written notice of all meetings shall be given, stating the place, date and hour of the meeting. The notice of an annual meeting shall state that the meeting is called for the election of directors and for the transaction of other business which may properly come before the meeting, and shall (if any other action which could be taken at a special meeting is to be taken at such annual meeting) state the purpose or purposes. The notice of a special meeting shall in all instances state the purpose for which the meeting is called. Except as otherwise provided by the laws of the State of Florida, a copy of the notice of any meeting shall be given, personally or by mail, not less than ten (10) days, nor more than sixty (60) days, before the date of the meeting, unless the lapse of the prescribed period of time shall have been waived, and directed to each stockholder at his record address or at such other address which he may have furnished by request in writing to the Secretary of the corporation. Notice by mail shall be deemed to be given when deposited, with postage thereon prepaid, in the United States mail. If a meeting is adjourned to another time and/or place, and if an announcement of the adjourned time and/or place is made at the meeting, it shall not be necessary to give notice of the adjourned meeting unless the directors, after adjournment, fix a new record date for the adjourned meeting. Notice need not be given to any stockholder who submits a written waiver of notice by him before or after the time stated therein. Attendance of a person at a meeting of stockholders shall constitute a waiver of notice of such meeting, except when the stockholder attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business before the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice.

(e) Conduct of Meeting. Meetings of the stockholders shall be presided over by one of the following officers in the order of seniority and if present and acting: The Chairman of the Board, if any; the Vice-Chairman of the Board, if any; the President; a Vice President; or if none of the foregoing is in office and present and acting, by a chairman to be chosen by the stockholders. The Secretary of the corporation, or in his absence, an Assistant Secretary, shall act as secretary of every meeting, but if neither the secretary nor an assistant secretary is present, the Chairman of the meeting shall appoint a secretary of the meeting.

(f) Proxy Representation. Every stockholder may authorize another person or persons to act for him by proxy in all matters in which a stockholder is entitled to participate, whether by waiving notice of any meeting, voting or participating at a meeting, or expressing consent or dissent without a meeting. Every proxy must be signed by the stockholder or his attorney-in-fact. In the event any such interest shall designate two (2) or more persons to act as proxies, a majority of such persons present at the meeting, or, if only one be present, that one, shall have all of the power conferred by the instrument upon all of the persons so designated, unless the instrument shall otherwise provide. A duly executed proxy shall be irrevocable if it states that it is irrevocable and only as long as it is coupled with an interest sufficient in law to support an irrevocable power. A revocable proxy may be revoked upon written notice being received by the proxy or proxies.

(g) Inspectors and Judges. The Board of Directors in advance of any meeting may, but need not, appoint one or more inspectors of election or judges of the vote, as the case may be, to act at the meeting or any adjournment thereof. If any inspector or inspectors, or judge or judges, are not appointed, the person presiding at the meeting may, but need not, appoint one or more inspectors or judges. In case any person who may be appointed as an inspector or judge fails to appear or act, the vacancy may be filled by appointment made by the directors in advance of the meeting, or at the meeting by the person presiding thereat. The inspectors or judges, if any, shall determine the number of shares of stock outstanding and the voting power of each, the shares of stock represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots and consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate votes, ballots and consents, determine the result and do such acts as are proper to conduct the election or vote with fairness to all stockholders. On request of the person presiding at the meeting, the inspector or inspectors or judge or judges, if any, shall make a report in writing of any challenge, question or matter determined by him or them and execute a certificate of any fact found by him or them.

(h) Quorum. The holders of a majority of the outstanding shares of stock shall constitute a quorum at a meeting of stockholders for the transaction of any business. Notwithstanding the withdrawal of enough shareholders to leave less than a quorum, the stockholders present may continue to conduct business or adjourn the meeting.

(i) Voting. Subject to provisions 1-8, below, a majority of the votes cast shall elect the directors and any other action shall be authorized by a majority of the votes cast, except where the laws of the State of Florida prescribe a different percentage of votes and/or a different exercise of voting power. In the election of directors, voting need not be by ballot. Voting by ballot shall not be required for any other corporate action except as otherwise prescribed by the laws of the State of Florida.

(1) With respect to the election of directors, holders of Class A Common Stock, voting as a separate class, shall be entitled to elect that number of directors which constitutes 25% of the authorized members of the Board of Directors and, if such 25% is not a whole number, the holders of such Class A Common Stock shall be entitled to elect the nearest higher whole number of directors that is at least 25% of such membership. Holders of Class B Common Stock, voting as a separate class, shall be entitled to elect the remaining directors.

(2) The holders of Class A Common Stock shall be entitled to vote as a separate class on the removal with or without cause, of any director elected by the holders of Class A Common Stock and the holders of Class B Common Stock shall be entitled to vote as a separate class on the removal, with or without cause, of any director elected by the holders of Class B Common Stock.

(3) The holders of the Class A Common Stock and the holders of the Class B Common Stock shall be entitled to vote as separate classes on such other matters as may be required by law or the Company's Articles of Incorporation, to be submitted to such holders voting as separate classes.

(4) Any vacancy in the office of a director elected by the holders of the Class A Common Stock may be filled by a vote of such holders voting as a separate class and any vacancy in the office of a director elected by the holders of the Class B Common Stock may be filled by a vote of such holders acting as a separate class or, in the absence of a shareholder vote, in the case of a vacancy of a director elected by either class, such vacancy may be filled by the remaining directors. Any director elected by the Board of Directors to fill a vacancy shall serve until the next election of directors by shareholders and his or her successor has been elected and qualified.

(5) The holders of Class A and Class B Common Stock shall in all matters not specified in Sections (1), (2), (3) or (4) of this sub-paragraph (i) "Voting" vote together as a single class; provided that the holders of Class A Common Stock shall have one-tenth (1/10) vote per share and the holders of Class B Common Stock shall have one (1) vote per share.

(6) The Class A Common Stock will not have the rights to elect the directors set forth in paragraphs (1) and (4) above if, on the record date for any shareholder meeting at which directors are to be elected, the number of issued and outstanding shares of Class A Common Stock is less than ten per cent (10%) of the aggregate number of issued and outstanding shares of Class A Common Stock and Class B Common Stock. In such cases, all directors to be elected at such meeting shall be elected by holders of Class A Common Stock and Class B Common Stock voting together as a single class, provided that, with respect to said election, the holders of Class A Common Stock will have one-tenth (1/10) vote per share and holders of Class B Common Stock will have one (1) vote per share.

(7) If, on the record date for any shareholder meeting at which directors are to be elected, the number of issued and outstanding shares of Class B Common Stock is less than 12-1/2% of the aggregate number of issued and outstanding shares of Class A Common Stock and Class B Common Stock, then the holders of Class A Common Stock would continue to elect a number of Class A Directors equal to 25% of the total number of directors constituting the whole board and, in addition, would vote together with the holders of Class B Common Stock to elect the Class B Directors to be elected at such meeting, with the holders of Class A Common Stock entitled to one-tenth (1/10) vote per share and the holders of Class B Common Stock entitled to one (1) vote per share.

(8) Notwithstanding anything in this sub-paragraph (i) "Voting" to the contrary, the holders of Class A Common Stock shall have exclusive voting power on all matters at any time when no Class B Common Stock is issued and outstanding.

(j) <u>Voting of Shares by Certain Holders</u>. Shares standing in the name of another corporation may be voted by such officer, agent, or proxy as the By-Laws of such corporation may prescribe, or, in the absence of such provision, as the board of directors of such corporation may determine.

Shares held by an administrator, executor, guardian, or conservator may be voted by him, either in person or by proxy, without a transfer of such shares into his name. Shares standing in the name of a trustee may be voted by him either in person or by proxy, but no trustee shall be entitled to vote shares held by him without a transfer of such shares into his name.

Shares standing in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into his name if authority to do so be contained in an appropriate order of the court by which such receiver was appointed.

A shareholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.

Shares of its own stock belonging to the corporation or held by it in a fiduciary capacity shall not be voted, directly or indirectly, at any meeting, and shall not be counted in determining the total number of outstanding shares at any given time.

6. INFORMAL JOINT ACTION BY STOCKHOLDERS AND DIRECTORS

Any action required to be taken at a meeting of the stockholders or directors, or a committee thereof, or any other action which may be taken at a meeting of the stockholders or directors, or a committee thereof, may be taken at a joint meeting of such persons or without a meeting if a consent in writing, setting forth the actions so taken, shall be signed by all of the committee members, stockholders or directors, or both, if the action is taken jointly, entitled to vote with respect to the subject matter thereof and filed with the secretary of the corporation as part of the corporate records.

7. ORDER OF BUSINESS

The order of business of all meetings of stockholders shall be as follows:

(a) Call to order.
(b) Proof of Notice of Meeting or Waiver of Notice.
(c) Reading of Minutes of preceding meeting.
(d) Reports of officers.
(e) Reports of committees.
(f) Appointment of Inspectors of Election, when applicable.
(g) Election of directors, when applicable.
(h) Unfinished business.
(i) New business.
(j) Adjournment.

ARTICLE II

DIRECTORS

1. THE BOARD OF DIRECTORS

(a) Function and Definition. The business of the corporation shall be managed by the Board ofDirectors of the corporation. The use of the phrase "whole board" herein refers to the total number of directors which the corporation would have if there were no vacancies.

(b) Qualification, Number, Division and Classes of Directors. The number of directors constituting the whole board shall not be less than three persons, and not more than nine persons, to be divided, as nearly as possible, into three equal divisions to serve in staggered terms of office of three years apiece. Each division shall consist of Class A and Class B directors, to the extent applicable, subject to the provisions of Article III, sub-paragraph 3 of the Articles of Incorporation.

Therefore, approximately one-third of the members of the Board of Directors shall be elected every three years to serve for a term of three years until their successors are duly elected and qualified.

In addition to the powers and authorities granted by these By-Laws and the Articles of Incorporation expressly conferred upon it, the Board of Directors may exercise all such powers of the corporation do all such lawful acts and things as are not by statute or by the Articles of Incorporation or these By-Laws directed or required to be executed or done by the stockholders. No director need be a stockholder, a citizen of the United States or a resident of Florida.

(c) Election and Term. Directors are divided into three equal divisions and are elected for a term of three years as Class A or Class B directors.

(d) Subsequent Increases. If, the stockholders or the Board of Directors, pursuant to the provisions of these By-Laws, increase or decrease the number of directors serving on the Board of Directors, such increases or decreases in the number of directors shall be allocated between the three divisions, subject to the restrictions provided by Article III of the Articles of Incorporation.

2. INCREASES OR DECREASES IN THE BOARD OF DIRECTORS

Stockholders of the Company may increase or decrease the number of directors constituting the whole board provided that such number shall be decreased to not less than three persons and increased to not more than nine persons, and subject to the Class representation provided by Article III of the Articles of Incorporation. The Board of Directors between the annual meetings of the stockholders is authorized by the majority thereof, and subject to the Class representation provided by Article III of the Articles of Incorporation, to increase the number of directors to not more than nine persons and the directors by a majority vote shall have the power to fill the vacancies created by any such increase. Any director so elected by the Board of Directors shall hold office until the next annual meeting of stockholders and until successors to each shall be elected and qualified.

3. VACANCIES

In the interim, vacancies in the Board of Directors shall be filled by the majority vote, by class, of the remaining directors then in office. Vacancies created by the resignation, removal or incapacity of a director may be filled for the unexpired term of office created by the vacancy. Vacancies created by an increase in the number of directors by the Board of Directors between annual stockholder meetings, shall be filled until the next annual meeting of stockholders.

4. DUTIES OF DIRECTORS

The Board of Directors shall have the control and general management of the affairs and business of the corporation. Such directors shall in all cases act as a Board, regularly convened, by majority, and they may adopt such rules and regulations for the conduct of their meetings and the management of the corporation as they may deem proper.

5. MEETINGS

(a) Time. Meetings shall be held at such time as the Board of Directors shall fix, except that the first meeting of a newly elected Board shall be held as soon after its election as the directors may conveniently assemble.

(b) Place. The meetings shall be held at such place within or without the State of Florida as shall be fixed by the Board.

(c) Call. No call shall be required for regular meetings for which the time and place have been fixed. Special meetings may be called by or at the direction of the Chairman of the Board, if any, the Vice-Chairman of the Board, if any, or the President, or of a majority of the directors in office.

(d) Notice or Actual or Constructive Waiver. No notice shall be required for regular meetings for which the time and place have been fixed. Written, oral, or any other manner of notice of the time and place shall be given for special meetings in sufficient time for the convenient assembly of the directors thereat. The notice of any meeting need not specify the purpose of the meeting. Any requirement of furnishing a notice shall be waived by any director who signs a written waiver of notice before or after the time stated therein. Notice of time and place shall be given for special meetings in sufficient time for the convenient assembly of the directors thereat.

(e) Quorum and Action. A majority of the whole Board shall constitute a quorum except when a vacancy or vacancies prevent such a majority, whereupon a majority of the directors in office shall constitute a quorum, provided that such majority shall constitute at least one-third (1/3) of the whole board. A majority of the directors present, whether or not a quorum is present, may adjourn a meeting to another time and place. Except as herein otherwise provided or as otherwise provided by the laws of the State of Florida, the act of the Board shall be the act by vote of a majority of the directors present at a meeting of such Board or committee if a conference telephone call or similar communications equipment is used by means of which all persons participating in the meeting can hear each other. The quorum and voting provisions herein stated shall not be construed as conflicting with any provisions of the laws of the State of Florida and these By-Laws which govern a meeting of directors held to fill the vacancies and newly created directorships in the Board.

(f) Chairman of the Meeting. The Chairman of the Board, if any, and if present and acting, shall preside at all meetings. Otherwise, the Vice-Chairman of the Board, if any, and if present and acting, or the President, if present and acting, or any other director chosen by the Board, shall preside.

6. RESIGNATION

Any director of the corporation may resign at any time by giving his resignation to the President, Vice President or the Secretary. Such resignation shall take effect at the time specified therein and unless otherwise specified therein the acceptance of such resignation shall not be necessary to make it effective.

7. REMOVAL OF DIRECTORS

Directors may be removed by action of majority of all remaining directors, by class, at any special meeting called for that purpose, only for cause.

8. COMMITTEES

The Board of Directors may, by resolution passed by a majority of the whole board, designate one or more committees, each committee to consist of two (2) or more of the directors of the corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified members at any meeting of the committee. Any such committee, to the extent provided in the resolution of the Board of Directors in the management of the business and affairs of the corporation, may authorize the seal of the corporation to be affixed to all papers which may require it. In the absence of any disqualification of any member of any such committee or committees, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

9. ACTION IN WRITING

Any action required or permitted to be taken at any meeting of the Board of Directors or any committee thereof may be taken without a meeting if all members of the Board or committee, as the cause may be consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

10. VOTING

At all meetings of the Board of Directors, or any committee thereof, each director is to have one (1) vote, irrespective of the number of shares of stock he may hold.

ARTICLE III

OFFICERS

1. OFFICERS DESIGNATED

The directors shall elect a President, who shall be a director, a Secretary, and a Treasurer, and may elect a Chairman of the Board of Directors, a Vice-Chairman thereof, and one or more Vice-Presidents, Assistant Secretaries, and Assistant Treasurers, and may elect or appoint such other officers, and agents as are desired. Any number of officers may be held by the same person, except that the President may not also be the Secretary or Assistant Secretary.

2. POWERS AND DUTIES

Officers shall have the powers and duties defined in the resolutions appointing them, provided however that the following officers shall have the following duties: The President shall preside at all meetings of the stockholders and shall have general supervision of the affairs of the corporation, shall sign or countersign all the certificates, contracts and other instruments of the corporation as authorized by the Board of Directors, shall make reports for the Board of Directors and shall perform other such duties as incident to his office properly required of him by the

Board of Directors. The Secretary shall issue the notice for all meetings, shall keep minutes of all meetings, shall have charge of the seal and the corporate books and shall make such reports and perform other duties that are incident to his office properly required by the Board of Directors.

3. TERMS OF OFFICE

Unless otherwise provided in the resolution of election or appointment, each officer shall hold office until the next meeting of the Board of Directors following the next annual meeting of stockholders and until his successor has been elected and qualified.

4. INABILITY TO SERVE

In the case of an absence or inability or any officer of the corporation, the Board of Directors may from time to time delegate the aforedescribed duties of such officer or any other officer, or any other director, or any other person.

5. RESIGNATION

Any officer may resign at any time and upon written notice to the Board of Directors of the corporation.

6. REMOVAL

The Board of Directors may remove any officer at any time for cause or without cause.

ARTICLE IV

DIVIDENDS

The Board of Directors may, from time to time declare, and the corporation may pay, dividends and other distributions with respect to its outstanding shares in cash, property, or its own shares as follows:

(1) Subject to sub-paragraph 2 below, whenever a dividend is paid to the shareholders of Class B Common Stock, the Corporation shall also pay to the holders of Class A Common Stock a dividend per share at least equal to the dividend per share paid to the holders of the Class B Common Stock. The Corporation may pay dividends to the holders of Class A Common Stock in excess of dividends paid (or without paying dividends) to holders of Class B Common Stock.

(2) If at anytime a stock distribution is to be paid, such stock distribution may be declared and paid only as follows:

(a) So long as no Class A Common Stock has been issued or is outstanding, Class A Common Stock may be paid to holders of Class B Common Stock.

(b) Class A Common Stock may be paid to holders of Class A Common Stock and Class B Common Stock may be paid to holders of Class B Common Stock.

(c) Whenever a stock distribution is paid, the same number of shares shall be paid with respect to each outstanding Class A or Class B Common Stock. The Corporation shall not combine or subdivide shares of either class without at the same time making an appropriate combination or subdivision of shares of the other class.

ARTICLE V

CONVERSION

Each holder of record of Class B Common Stock may at any time or may from time to time, in such holders' sole discretion and at such holders' option, convert any whole number or all of such holders' Class B Common Stock into fully paid and non-assessable Class A Common Stock at the rate of one share of Class A Common Stock for each share of Class B Common Stock surrendered for conversion.

ARTICLE VI

CORPORATE SEAL

The corporate seal shall be in such form as the Board of Directors shall prescribe.

ARTICLE VII

FISCAL YEAR

The fiscal year of the corporation shall be fixed, and shall be subject to change, by the Board of Directors.

ARTICLE VIII

AMENDMENT OF BY-LAWS

The power to amend, alter, and repeal these By-Laws, and to adopt new By-Laws, shall be vested in the Board of Directors, provided, that the Board of Directors may delegate such power, in whole or in part, to the stockholders, and provided, further, that any By-Laws, other than an initial By-Law, which alters the minimum and maximum number of directors and the election of directors by classes for staggered terms shall be adopted by the stockholders.

ARTICLE IX

INDEMNIFICATION

The corporation shall indemnify its officers and directors to the fullest extent permitted by law.

AMENDMENT TO THE
BYLAWS
OF
WATSCO, INC.

THIS AMENDMENT (the "Amendment"), made as of this 1st day of April, 2009 by **WATSCO, INC.** (hereinafter called the "Company");

WITNESSETH:

WHEREAS, the Board of Directors of the Company believes it to be in the best interests of the Company to amend the Bylaws of the Company in a manner set forth below; and

WHEREAS, the Bylaws of the Company permit such amendments to be effected by the Board of Directors.

NOW, THEREFORE, the Bylaws shall be amended as follows, effective as of April 1, 2009:

1. The words "Class A Common Stock" shall be deleted in their entirety throughout the Bylaws and the words "Common Stock" shall be inserted therefore.

2. Article I, Section (5)(i)(5) shall be deleted in its entirety and the following shall be added as the new Article I, Section (5)(i)(5):

> "The holders of Common Stock and Class B Common Stock shall in all matters not specified in Sections (1), (2), (3) or (4) of this sub-paragraph (i) "Voting" vote together as a single class; provided that the holders of Common Stock shall have one (1) vote per share and the holders of Class B Common Stock shall have ten (10) votes per share."

3. Article II, Section 3 shall be deleted in its entirety and the following shall be added as the new Article II, Section 3:

> "In the interim, vacancies in the Board of Directors shall be filled by the majority vote of the remaining directors then in office. Vacancies created by the resignation, removal or incapacity of a director may be filled until the next annual meeting of stockholders. Vacancies created by an increase in the number of directors by the Board of Directors between annual stockholder meetings, shall be filled until the next annual meeting of stockholders."

4. Article VIII shall be deleted in its entirety and the following shall be added as the new Article VIII:

> "The power to amend, alter, and repeal these By-laws, and to adopt new By-Laws, shall be vested in the Board of Directors, provided, that any By-Laws, other than an initial By-Law, which alters the minimum and maximum number of directors and the election of directors by classes for staggered terms shall be adopted by the stockholders."

5. In all other respects, the Bylaws shall remain unchanged by this Amendment.

IN WITNESS WHEREOF, the Company has caused this instrument to be executed the day and year first above written.

WATSCO, INC.

Barry Logan, Senior Vice President

EXHIBIT VI

CURRENT REPORT ON FORM 8-K FURNISHED BY WATSCO, INC. TO THE SEC ON JULY 22, 2010

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

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

Date of Report (Date of Earliest Event Reported) **July 22, 2010**

watsco

WATSCO, INC.
(Exact Name of Registrant as Specified in Its Charter)

Florida
(State or Other Jurisdiction of Incorporation)

1-5581	**59-0778222**
(Commission File Number)	(IRS Employer Identification No.)

2665 South Bayshore Drive, Suite 901
Coconut Grove, Florida 33133
(Address of Principal Executive Offices, Including Zip Code)

(305) 714-4100
(Registrant's Telephone Number, Including Area Code)

N/A
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

|_| Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
|_| Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
|_| Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d- 2(b))
|_| Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition

On July 22, 2010, the Company issued a press release reporting its financial results for the quarter and six months ended June 30, 2010. A copy of the Company's press release is attached hereto as Exhibit 99.1 and is hereby incorporated by reference.

The information in this Form 8-K and the Exhibit attached hereto shall be deemed "furnished" and not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any Company filing under the Securities Act of 1933, as amended.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

Exhibit Number	Description
99.1	Press release dated July 22, 2010 issued by Watsco, Inc.

SIGNATURES

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.

Dated: July 22, 2010

By: /s/ Ana M. Menendez
Ana M. Menendez,
Chief Financial Officer

Exhibit 99.1

Watsco Reports its Best-Ever Quarter for Sales, Income and Cash Flow

2nd Quarter EPS of $1.08; Expanded Operating Margins; Strong HVAC Replacement Equipment Growth

COCONUT GROVE, Florida -- (BUSINESS WIRE), July 22, 2010 -- Watsco, Inc. (NYSE:WSO) today reported record results for the second quarter and for the six months ended June 30, 2010.

The results include Carrier Enterprise, a joint venture formed on July 1, 2009 with Carrier Corporation, which added 95 locations to the Watsco network. Watsco owns 60% of Carrier Enterprise and Carrier owns 40%. Watsco is the largest distributor of air conditioning, heating and refrigeration equipment and related parts and supplies in the HVAC/R industry, currently operating 506 locations serving over 50,000 customers in 36 states, Puerto Rico, Latin America and the Caribbean. Watsco's pro forma revenues for 2009 were $2.6 billion.

Second Quarter Results

Earnings per share increased 93% to a record $1.08 per diluted share on record net income of $35 million, compared to $0.56 per diluted share on net income of $16 million in 2009.

Revenues increased 114% to a record $865 million, including $400 million of sales added by Carrier Enterprise. Same-store sales increased 14%, reflecting 25% growth in air conditioning and heating (HVAC) equipment (53% of sales), a 3% increase in other HVAC products (34% of sales) and a 5% increase in refrigeration products (13% of sales). Sales of HVAC equipment reflect a combination of strong growth in unit sales and an improving sales mix of higher-efficiency replacement air conditioning and heating systems.

Gross profit increased 99% to a record $201 million and gross profit margin was 23.3% versus 24.9%, reflecting lower selling margins for Carrier Enterprise. On a same-store basis, gross profit increased 12% to $113 million and gross profit margin declined 30 basis-points to 24.7%, reflecting the movement in sales mix toward HVAC equipment, which generates lower gross margin than non-equipment products.

Operating income increased 170% to a record $71 million with operating margins expanding 170 basis-points to 8.2%. Same-store operating income increased 45% to $38 million with a 180 basis-point increase in operating margin to 8.4%. Selling, general and administrative (SG&A) expenses increased 74% to $130 million. As a percentage of sales, SG&A were a record low of 15.1% versus 18.4% a year ago. Excluding new locations, SG&A was flat for the quarter and as a percentage of sales, improved 210 basis-points to 16.3%.

Albert H. Nahmad, Watsco's President & Chief Executive Officer, stated: "Put simply, this is our best quarter ever. Watsco delivered strong sales and earnings growth, generated substantially higher margins and produced a record amount of cash flow. Sales of higher-efficiency HVAC systems grew 64% during the quarter, enhancing sales mix and demonstrating the attractiveness and value of these products."

Revenues of the new Carrier Enterprise locations increased 19% on a pro forma basis in comparison to last year to $400 million. Operating income more than doubled to $32 million in 2010 versus pro forma operating income of $16 million in 2009. Operating margins improved 340 basis-points to 8.0%, reflecting sales growth, higher gross profit margin and lower SG&A expenses as a percentage of sales. Results of Carrier Enterprise added approximately 27 cents to diluted earnings per share during the quarter.

Mr. Nahmad added: "Looking ahead, we believe there are several fundamentals that can drive Watsco's growth.

First, we expect the movement toward higher-efficiency and environmentally sensitive HVAC systems to continue as conservation efforts, consumer awareness and the regulatory landscape intensify and become more relevant over time. Also, recent industry studies indicate there is pent-up demand for replacement HVAC systems that should unwind over the next several years as the economy strengthens and replacement activity returns to its historical pattern. Additionally, home construction remains near an all-time low and restoration of building activity will add revenue. Sales of commercial products have turned positive and are expected to recover further as capital spending improves. Lastly, we will continue to build our network through the acquisition of great businesses using our proven buy-and-build philosophy."

First Half 2010 Results

Earnings per share for 2010 increased 131% to $1.20 per diluted share on net income of $39 million, compared to $0.52 per diluted share on net income of $15 million in 2009.

Revenues increased 97% to $1.4 billion and include $625 million of sales added by Carrier Enterprise. Same-store sales increased 7%, reflecting 17% growth in sales of air conditioning and heating (HVAC) equipment (50% of sales), a 3% decline in other HVAC products (37% of sales) and a 3% increase in the sale of refrigeration products (13% of sales).

Gross profit increased 85% to $324 million and gross profit margin was 23.5% versus 25.2%, reflecting the impact of lower selling margins for Carrier Enterprise. Same-store gross profit was $186 million, an increase of 7%, and same-store gross profit margin improved 10 basis-points to 25.3%.

Operating income was $80 million with operating margins expanding 220 basis-points to 5.8%. Same-store operating income increased 70% to $43 million with operating margins improving 220 basis-points to 5.8%. Selling, general and administrative (SG&A) expenses increased 62% to $244 million and as a percentage of sales were 17.7% versus 21.6% a year ago. Excluding new locations, SG&A declined 5% and as a percentage of sales, improved 220 basis-points to 19.4%.

Revenues of the new Carrier Enterprise locations increased 12% on a pro forma basis in comparison to last year to $625 million. Operating income increased 215% to $36 million in 2010 versus pro forma operating income of $12 million in 2009. Operating margins improved 370 basis-points to 5.8%, reflecting sales growth, higher gross profit margin and lower SG&A expenses as a percentage of sales. Results of Carrier Enterprise added approximately 30 cents to diluted earnings per share for the six-month period ended June 30, 2010.

A summary of unaudited pro forma financial information combining Watsco's results of operations with the results of Carrier Enterprise as if the joint venture had been formed on January 1, 2009 is attached.

Cash Flow and Dividends

During the first half of 2010, Watsco generated a record $57 million of operating cash flow. Cash and cash equivalents were $88 million, borrowings were $20 million at June 30, 2010 and the Company's debt-to-total-capitalization stands at 3%.

Dividends paid during the six-month period increased 22% to $32 million compared to 2009. Watsco has paid dividends every quarter for over 30 years, and has paid increasing annual dividends since 2001. The current annual dividend rate is $2.08 per share.

Mr. Nahmad added, "Watsco produced record cash flow and our balance sheet remains in pristine condition. We are delighted shareholders continue to meaningfully participate through increasing dividends. Since 2000, our cumulative operating cash flow has been approximately $750 million compared to net earnings of approximately $500 million, surpassing by far our stated goal of generating cash flow greater than net income. We continue to seek substantial additional investments to grow our network and extend the strength of our company."

Conference Call

Watsco is hosting a conference call to discuss its second quarter earnings results and outlook for the remainder of 2010 today at 10:00 a.m. (EDT). The conference call will be web-cast by CCBN's StreetEvents at http://www.watsco.com. A replay of the conference call will be available on the Company's website. For those unable to connect to the web-cast, you may listen via telephone. The dial-in number is (866) 740-9405. Please call five to ten minutes prior to the scheduled start time as the number of telephone connections is limited.

Watsco is the largest distributor of air conditioning, heating and refrigeration equipment and related parts and supplies in the HVAC/R industry, currently operating 506 locations serving over 50,000 customers in 36 states, Puerto Rico, Latin America and the Caribbean. According to the U.S. Department of Energy, heating and cooling account for about 56% of the energy use in a typical U.S. home. The products we distribute can dramatically increase the efficiency of a home's HVAC system, saving homeowners money on their energy expenses and significantly reducing the emissions of greenhouse gases. Additional information about Watsco may be found on the Internet at http://www.watsco.com.

Use of Non-GAAP Financial Information

In this release, the Company discloses non-GAAP measures of pro forma financial information and same-store sales. The pro forma financial information represents the combination of our results with the results of Carrier Enterprise as if the joint venture had been consummated on January 1, 2009. Information referring to "same-store basis" excludes the effects of locations acquired, locations opened in new markets and locations closed during the prior 12 months. The Company believes that this pro forma financial information provides greater comparability regarding its ongoing operating performance. These measures should not be considered an alternative to measurements required by accounting principles generally accepted in the United States (GAAP). These pro forma measures are unlikely to be comparable to pro forma financial information provided by other companies.

This document includes certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to changes in economic, business, competitive market, new housing starts and completions, capital spending in commercial construction, consumer spending and debt levels, regulatory and other factors, including, without limitation, the effects of supplier concentration, competitive conditions within Watsco's industry, seasonal nature of sales of Watsco's products, insurance coverage risks and final GAAP adjustments. Forward-looking statements speak only as of the date the statement was made. Watsco assumes no obligation to update forward-looking information to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information. Detailed information about these factors and additional important factors can be found in the documents that Watsco files with the Securities and Exchange Commission, such as Form 10-K, Form 10-Q and Form 8-K.

WATSCO, INC.
Consolidated Results of Operations
(In thousands, except per share data)
(Unaudited)

	Quarter Ended June 30, 2010	Quarter Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Revenues	$864,805	$404,971	$1,374,560	$696,314
Cost of sales	663,736	303,986	1,050,887	521,095
Gross profit	201,069	100,985	323,673	175,219
Gross profit margin	23.3%	24.9%	23.5%	25.2%
SG&A expenses	130,150	74,691	243,889	150,487
Operating income	70,919	26,294	79,784	24,732
Operating margin	8.2%	6.5%	5.8%	3.6%
Interest expense, net	894	344	1,791	672
Income before income taxes	70,025	25,950	77,993	24,060
Income taxes	(21,818)	(9,668)	(24,311)	(8,950)
Net income	48,207	16,282	53,682	15,110
Less: net income attributable to noncontrolling interest	(13,162)	-	(14,804)	-
Net income attributable to Watsco, Inc.	$35,045	$16,282	$38,878	$15,110
Basic earnings per share:				
Net income attributable to Watsco, Inc. shareholders	$35,045	$16,282	$38,878	$15,110
Less: distributed and undistributed earnings allocated to non-vested (restricted) common stock	2,100	992	2,342	944
Earnings allocated to Watsco, Inc. shareholders	$32,945	$15,290	$36,536	$14,166
Diluted earnings per share:				
Net income attributable to Watsco, Inc. shareholders	$35,045	$16,282	$38,878	$15,110
Less: distributed and undistributed earnings allocated to non-vested (restricted) common stock	2,097	990	2,341	953
Earnings allocated to Watsco, Inc. shareholders	$32,948	$15,292	$36,537	$14,157
Earnings per share for Common and Class B common stock:				
Basic	$1.08	$0.57	$1.20	$0.53
Diluted	$1.08	$0.56	$1.20	$0.52
Weighted-average Common and Class B common shares and equivalent shares used to calculate earnings per share:				
Basic	30,461	26,877	30,414	26,776
Diluted	30,570	27,250	30,537	27,157

WATSCO, INC.
Condensed Consolidated Balance Sheets
(In thousands)

	June 30, 2010 (Unaudited)	December 31, 2009
Cash and cash equivalents	$ 87,757	$ 58,093
Accounts receivable, net	385,532	266,284
Inventories	522,545	410,078
Other	20,235	20,843
Total current assets	1,016,069	755,298
Property and equipment, net	31,361	33,118
Goodwill, intangibles and other	370,138	372,197
Total assets	$1,417,568	$1,160,613
Accounts payable and accrued expenses	$ 448,272	$ 223,775
Current portion of long-term obligations	153	151
Total current liabilities	448,425	223,926
Borrowings under revolving credit agreements	20,000	12,763
Deferred income taxes and other liabilities	29,311	29,116
Total liabilities	497,736	265,805
Watsco, Inc. shareholders' equity	751,361	738,026
Noncontrolling interest	168,471	156,782
Total shareholders' equity	919,832	894,808
Total liabilities and shareholders' equity	$1,417,568	$1,160,613

WATSCO, INC.
Supplemental Data
Pro Forma Financial Information
(Unaudited)

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 acquisition date includes adjustments to record income taxes related to our portion of Carrier Enterprise's income, bank fees paid to amend our existing $300 million revolving credit agreement entered into upon the consummation of the joint venture, bank fees paid by Carrier Enterprise to enter into a separate secured three-year $75 million revolving credit agreement and amortization related to identified intangible assets with finite lives and does not include adjustments to remove certain corporate expenses of Carrier Enterprise, which may not be incurred in future periods, adjustments for depreciation, or synergies (primarily related to improved gross profit and lower general and administrative expenses) that may be realized subsequent to the acquisition date. The 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 owned and operated Carrier Enterprise as of the beginning of the periods presented.

	Quarter Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues	$864,805	$740,189	$1,374,560	$1,256,818
Gross profit	201,069	166,354	323,673	284,443
Gross profit margin	23.3%	22.5%	23.5%	22.6%
Operating income	70,919	41,819	79,784	36,244
Operating margin	8.2%	5.6%	5.8%	2.9%
Income before income taxes	70,025	41,023	77,993	34,666
Net income	48,207	27,947	53,682	23,349
Less: net income attributable to noncontrolling interest	(13,162)	(6,600)	(14,804)	(5,084)
Net income attributable to Watsco, Inc.	$35,045	$21,347	$38,878	$18,265
Diluted earnings per share:				
Net income attributable to Watsco, Inc. shareholders	$35,045	$21,347	$38,878	$18,265
Less: distributed and undistributed earnings allocated to non-vested (restricted) common stock	2,097	1,177	2,341	1,649
Earnings allocated to Watsco, Inc. shareholders	$32,948	$20,170	$36,537	$16,616
Diluted earnings per share for Common and Class B common stock	$1.08	$0.67	$1.20	$0.55
Weighted-average Common and Class B common shares and equivalent shares used to calculate diluted earnings per share:	30,570	30,331	30,537	30,237

Additional unaudited pro forma selected quarterly financial data solely for the 95 locations contributed by Carrier to the joint venture:

	Quarter Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues	$399,593	$335,218	$625,412	$560,504
Operating income	$32,010	$15,525	$36,224	$11,512

EXHIBIT VII

CONSOLIDATED FINANCIAL STATEMENTS OF WATSCO, INC. AS OF DECEMBER 31, 2008 AND DECEMBER 31, 2007, AND FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
Watsco, Inc.

We have audited the accompanying consolidated balance sheets of Watsco, Inc. (a Florida Corporation) and subsidiaries (the “Company”) as of December 31, 2008 and 2007, and the related consolidated statements of income, cash flows, and shareholders’ equity for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Watsco, Inc. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 5 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” on January 1, 2007. As discussed in Notes 1 and 6 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123R “Share-Based Payment” on January 1, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Watsco, Inc. and subsidiaries’ internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 27, 2009 expressed an unqualified opinion thereon.

/s/ GRANT THORNTON LLP

Miami, Florida
February 27, 2009

WATSCO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	Years Ended December 31, 2008	2007	2006
Revenues	$ 1,700,237	$ 1,758,022	$ 1,771,214
Cost of sales	1,258,243	1,311,037	1,313,944
Gross profit	441,994	446,985	457,270
Selling, general and administrative expenses	343,386	335,831	321,876
Operating income	98,608	111,154	135,394
Interest expense, net	2,018	3,172	3,821
Income from continuing operations before income taxes	96,590	107,982	131,573
Income taxes	36,221	40,493	49,340
Net income from continuing operations	60,369	67,489	82,233
(Loss) income from discontinued operations, net of income taxes (Note 13)	—	(1,912)	131
Net income	$ 60,369	$ 65,577	$ 82,364
Basic earnings per share for Common and Class B common stock (1):			
Net income from continuing operations	$ 2.28	$ 2.57	$ 3.14
Net (loss) income from discontinued operations	—	(0.07)	0.01
Net income	$ 2.28	$ 2.49	$ 3.15
Diluted earnings per share for Common and Class B common stock (1):			
Net income from continuing operations	$ 2.18	$ 2.43	$ 2.95
Net (loss) income from discontinued operations	—	(0.07)	—
Net income	$ 2.18	$ 2.36	$ 2.96
Weighted-average Common and Class B common shares and equivalent shares used to calculate earnings per share:			
Basic	26,453	26,297	26,150
Diluted	27,736	27,824	27,829

The accompanying notes to consolidated financial statements are an integral part of these statements.

(1) Earnings per Common and Class B common share are calculated on an individual basis and, because of rounding, the summation of earnings from continuing operations and earnings (loss) from discontinued operations may not equal the amount calculated for earnings as a whole.

WATSCO, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)	December 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 41,444	$ 9,405
Accounts receivable, net	151,317	178,415
Inventories	250,914	288,149
Other current assets	13,028	13,203
Total current assets	456,703	489,172
Property and equipment, net	24,209	26,904
Goodwill	219,810	217,129
Other assets	15,339	16,908
	$ 716,061	$ 750,113
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	$ 268	$ 275
Accounts payable	63,850	88,596
Accrued expenses and other current liabilities	43,706	40,493
Total current liabilities	107,824	129,364
Long-term obligations:		
Borrowings under revolving credit agreement	20,000	54,000
Other long-term obligations, net of current portion	783	1,042
Total long-term obligations	20,783	55,042
Deferred income taxes and other liabilities	16,794	15,750
Commitments and contingencies (Notes 10 and 12)		
Shareholders' equity:		
Common stock, $0.50 par value, 60,000,000 shares authorized; 30,882,931 and 30,513,096 shares issued in 2008 and 2007, respectively	15,442	15,256
Class B common stock, $0.50 par value, 10,000,000 shares authorized; 3,813,620 and 3,721,687 shares issued in 2008 and 2007, respectively	1,907	1,861
Paid-in capital	282,636	267,669
Accumulated other comprehensive loss, net of tax	(1,125)	(431)
Retained earnings	386,225	375,207
Treasury stock, at cost, 6,370,913 and 6,265,313 shares of Common and Class B common stock in 2008 and 2007, respectively	(114,425)	(109,605)
Total shareholders' equity	570,660	549,957
	$ 716,061	$ 750,113

The accompanying notes to consolidated financial statements are an integral part of these statements.

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

(In thousands, except share and per share data)	Common Stock and Class B Common Stock Shares	Common Stock and Class B Common Stock Amount	Paid-In Capital	Deferred Compensation on Non-Vested Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2005	**27,462,832**	**$16,627**	**$264,903**	**$(35,894)**	**$(478)**	**$290,383**	**$(84,891)**	**$450,650**
Net income						82,364		82,364
Changes in unrealized gains and losses on available-for-sale securities and a derivative instrument, net of income taxes					352			352
Comprehensive income								82,716
Retirement of common stock	(150,086)	(75)	(10,488)					(10,563)
Common stock contribution to 401(k) plan	19,055	10	1,130					1,140
Stock issuances from exercise of stock options and employee stock purchase plan	460,144	230	8,143					8,373
Excess tax benefit from share-based compensation			8,371					8,371
Issuances of non-vested (restricted) shares of common stock	287,359	144	12,235					12,379
Forfeitures of non-vested (restricted) shares of common stock	(2,873)	(2)	2					—
Share-based compensation			5,020					5,020
Adoption of SFAS No. 123R, "Share-Based Payment"			(35,894)	35,894				—
Cash dividends declared on Common and Class B common stock, $0.95 per share						(26,372)		(26,372)
Purchase of treasury stock	(243,600)						(15,328)	(15,328)
Balance at December 31, 2006	**27,832,831**	**16,934**	**253,422**	**—**	**(126)**	**346,375**	**(100,219)**	**516,386**
Net income						65,577		65,577
Changes in unrealized gains and losses on available-for-sale securities and derivative instruments, net of income taxes					(305)			(305)
Comprehensive income								65,272
Retirement of common stock	(17,291)	(9)	(893)					(902)
Common stock contribution to 401(k) plan	27,111	14	1,265					1,279
Stock issuances from exercise of stock options and employee stock purchase plan	268,652	133	4,488					4,621
Excess tax benefit from share-based compensation			3,462					3,462
Issuances of non-vested (restricted) shares of common stock	91,255	46	(46)					—
Forfeitures of non-vested (restricted) shares of common stock	(1,988)	(1)	1					—
Share-based compensation			5,970					5,970

(In thousands, except share and per share data)	Common Stock and Class B Common Stock Shares	Common Stock and Class B Common Stock Amount	Paid-In Capital	Deferred Compensation on Non-Vested Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total
Cash dividends declared on Common and Class B common stock, $1.31 per share						(36,745)		(36,745)
Purchase of treasury stock	(231,100)						(9,386)	(9,386)
Balance at December 31, 2007	**27,969,470**	**17,117**	**267,669**	**—**	**(431)**	**375,207**	**(109,605)**	**549,957**
Net income						60,369		60,369
Changes in unrealized gains and losses on available-for-sale securities and derivative instruments, net of income taxes					(694)			(694)
Comprehensive income								59,675
Retirement of common stock	(261,014)	(131)	(9,798)					(9,929)
Common stock contribution to 401(k) plan	33,986	17	1,232					1,249
Stock issuances from exercise of stock options and employee stock purchase plan	643,796	323	12,344					12,667
Excess tax benefit from share-based compensation			4,758					4,758
Issuances of non-vested (restricted) shares of common stock	45,000	23	(23)					—
Share-based compensation			6,454					6,454
Cash dividends declared on Common and Class B common stock, $1.75 per share						(49,351)		(49,351)
Purchase of treasury stock	(105,600)						(4,820)	(4,820)
Balance at December 31, 2008	**28,325,638**	**$17,349**	**$282,636**	**—**	**$(1,125)**	**$386,225**	**$(114,425)**	**$570,660**

The accompanying notes to consolidated financial statements are an integral part of these statements.

WATSCO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Years Ended December 31, 2008	2007	2006
Cash flows from operating activities:			
Net income	$ 60,369	$ 65,577	$ 82,364
Loss (income) from discontinued operations, net of income taxes	—	1,912	(131)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7,071	6,420	5,786
Share-based compensation	6,454	5,970	5,020
Provision for doubtful accounts	3,816	3,086	3,484
Gain on sale of property and equipment	(170)	(23)	(199)
Gain on sale of available-for-sale securities	—	(1,299)	—
Deferred income tax provision	447	4,117	(659)
Non-cash contribution for 401(k) plan	1,249	1,279	1,140
Excess tax benefits from share-based compensation	(4,758)	(3,462)	(8,371)
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	23,416	23,519	10,181
Inventories	37,153	46,416	(18,026)
Accounts payable and other liabilities	(23,020)	(48,390)	(10,193)
Other, net	1,446	1,649	(2,057)
Net cash provided by operating activities of continuing operations	113,473	106,771	68,339
Net cash provided by operating activities of discontinued operations	—	1,227	202
Net cash provided by operating activities	113,473	107,998	68,541
Cash flows from investing activities:			
Capital expenditures	(3,973)	(6,071)	(9,883)
Purchases of available-for-sale securities	—	(5,240)	(2,847)
Proceeds from sale of discontinued operations	—	3,342	—
Proceeds from sale of available-for-sale securities	—	8,551	—
Business acquisitions, net of cash acquired	76	(108,972)	(9,889)
Proceeds from sale of property and equipment	226	428	448
Net cash used in investing activities of continuing operations	(3,671)	(107,962)	(22,171)
Net cash used in investing activities of discontinued operations	—	(38)	(109)
Net cash used in investing activities	(3,671)	(108,000)	(22,280)
Cash flows from financing activities:			
Dividends on Common and Class B common stock	(49,351)	(36,745)	(26,372)
Net (repayments) proceeds under current revolving credit agreement	(34,000)	54,000	—
Purchase of treasury stock	(4,820)	(9,386)	(15,328)
Net (repayments) proceeds from other long-term obligations	(266)	81	(64)
Net repayment under prior revolving credit agreement	—	(30,000)	—
Repayment of long-term notes	—	(10,000)	(10,000)
Payment of current revolving credit agreement costs	—	(476)	—
Excess tax benefits from share-based compensation	4,758	3,462	8,371
Net proceeds from issuances of common stock	5,916	4,131	3,822
Net cash used in financing activities	(77,763)	(24,933)	(39,571)
Net increase (decrease) in cash and cash equivalents	32,039	(24,935)	6,690
Cash and cash equivalents at beginning of year	9,405	34,340	27,650
Cash and cash equivalents at end of year	$ 41,444	$ 9,405	$ 34,340

The accompanying notes to consolidated financial statements are an integral part of these statements.

WATSCO, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share data)

1. Summary of Significant Accounting Policies

Nature of Operations

Watsco, Inc. and its subsidiaries (collectively, "Watsco", which may be referred to as *we*, *us* or *our*) is the largest independent distributor of air conditioning, heating and refrigeration equipment and related parts and supplies ("HVAC/R") in the United States. At December 31, 2008, we operated from 417 locations in 34 states.

Financial Statement Presentation

On July 19, 2007, we divested of our non-core staffing unit (see Note 13). All amounts related to this operation are restated as discontinued operations for all periods presented consistent with the 2007 presentation.

Basis of Consolidation

The consolidated financial statements include the accounts of Watsco and all of its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include valuation reserves for accounts receivable, inventory and income taxes, reserves related to self-insurance programs and valuation of goodwill and indefinite life intangible assets. Actual results could differ from those estimates.

Cash Equivalents

All highly liquid instruments purchased with original maturities of three months or less are considered to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable primarily consists of trade receivables due from customers. Our customers are primarily independent contractors and dealers who service the replacement and new construction markets for residential and light commercial central air conditioning, heating and refrigeration systems. We routinely grant credit to customers to facilitate revenue growth and maintain branch locations for product sales and distribution. When determining whether to grant or increase credit, management considers a number of factors, which include creditworthiness, customer payment history, historical experience with the customer and other information. Consistent with industry practices, we normally require payment from our customers within 30 to 45 days. We record our trade receivables at the invoiced amount less an allowance for doubtful accounts. An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of customers to make required payments. When preparing these estimates, we consider a number of factors, including the aging of a customer's account, past transactions with customers, creditworthiness of specific customers, historical trends and other information. We typically do not require our customers to provide collateral. Accounts receivable reserve policies are reviewed periodically, reflecting current risks, trends and changes in industry conditions. The past due status of an account is determined based on stated payment terms. Upon determination that an account is uncollectible, we write off the receivable balance. At December 31, 2008 and 2007, the allowance for doubtful accounts totaled $3,941 and $5,143, respectively. Although we believe the allowance is sufficient, the continuing declining economic conditions could lead to further deterioration in the financial condition of our customers, resulting in an impairment of their ability to make payments and additional allowances may be required.

Inventories

Inventories consist of air conditioning, heating and refrigeration equipment and related parts and supplies and are valued at the lower of cost or market on a weighted-average cost basis. As part of the valuation process, inventory reserves are established to state excess, slow-moving and damaged inventories at their estimated net realizable value. Inventory reserve policies are reviewed periodically, reflecting current risks, trends and changes in industry conditions. A reserve for estimated inventory shrinkage is also maintained to consider inventory shortages determined from cycle counts and physical inventories. At December 31, 2008 and 2007, inventory reserves totaled $5,009 and $6,268, respectively.

Vendor Rebates

We account for vendor rebates in accordance with Emerging Issues Task Force ("EITF") Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor." We have arrangements with several vendors that provide rebates payable to us when we achieve any of a number of measures, generally related to the volume level of purchases. We account for such rebates as a reduction of inventory until we sell the product, at which time such rebates are reflected as a reduction of cost of sales in our consolidated statements of income. Throughout the year, we estimate the amount of the rebate based on our estimate of purchases to date relative to the purchase levels that mark our progress toward earning the rebates. We continually revise these estimates of earned vendor rebates based on actual purchase levels. At December 31, 2008 and 2007, we have $4,416 and $4,692, respectively, of rebates recorded as a reduction of inventory. Substantially all vendor rebate receivables are collected within three months immediately following the end of the year.

Marketable Securities

Investments in marketable equity securities of $279 and $732 at December 31, 2008 and 2007, respectively, are included in other assets in our consolidated balance sheets and are classified as available-for-sale. These equity securities are recorded at market using the specific identification method with unrealized holding losses, net of deferred taxes, reported in accumulated other comprehensive loss ("OCL") within shareholders' equity. Dividend and interest income are recognized in the statement of income when earned. At December 31, 2008 and 2007, $347 and $65 of unrealized losses, net of deferred tax benefits of $208 and $38, respectively, was included in accumulated OCL.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of property and equipment is computed using the straight-line method. Buildings and improvements are depreciated or amortized over estimated useful lives ranging from 3-40 years. Leasehold improvements are amortized over the shorter of the respective lease terms or estimated useful lives. Estimated useful lives for other depreciable assets range from 3-7 years. Depreciation and amortization expense related to property and equipment amounted to $6,612, $6,196 and $5,725 for the years ended December 31, 2008, 2007 and 2006, respectively.

Goodwill and Intangible Assets

Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," an annual impairment review is performed, or more frequently if indicators of potential impairment exist, to determine if the carrying value of the recorded goodwill is impaired. The impairment review process compares the fair value of the reporting unit in which goodwill resides to its carrying value. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the implied fair value of goodwill (as defined under SFAS No. 142) within the reporting unit is less than its carrying value (see Note 8).

Intangible assets primarily consist of the value of trade names and trademarks, customer relationships and non-compete agreements. Indefinite life intangibles not subject to amortization are assessed for impairment at least annually, or more frequently if events or changes in circumstances indicate they may be impaired, by comparing the fair value of the intangible asset to its carrying amount to determine if a write-down to fair value is required. Intangible assets with finite lives are amortized using the straight-line method over their respective estimated useful lives, which range from 4 to 15 years. Amortization expense related to intangible assets amounted to $459, $224 and $61 for the years ended December 31, 2008, 2007 and 2006, respectively. Based on the current amount of finite lived intangible assets, we estimate amortization expense to be approximately $400 for each of the next five years (see Note 8).

Impairment of Long-Lived Assets Other than Goodwill

Long-lived assets, including intangible assets with finite lives, are tested for recoverability when events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. In accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” recoverability is evaluated by determining whether the amortization of the balance over its remaining life can be recovered through undiscounted future operating cash flows. The amount of impairment if any, is measured based on projected discounted cash flows using a discount rate reflecting the average cost of funds and compared to the asset’s carrying value. As of December 31, 2008, there were no such events or circumstances.

Revenue Recognition

Revenue is recognized in accordance with Securities and Exchange Commission Staff Accounting Bulletin (“SAB”) No. 104, “Revenue Recognition” (which superseded SAB No. 101, “Revenue Recognition in Financial Statements,” as amended by SAB 101A and 101B). Revenue primarily consists of sales of air conditioning, heating and refrigeration equipment and related parts and supplies and is recorded when shipment of products or delivery of services has occurred. Assessment of collection is based on a number of factors, including past transactions, creditworthiness of customers, historical trends and other information. Substantially all customer returns relate to products that are returned under warranty obligations underwritten by manufacturers, effectively mitigating our risk of loss for customer returns. Taxes collected from our customers and remitted to governmental authorities are presented in our consolidated statements of income on a net basis.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense amounted to $5,841, $6,314 and $6,050 for the years ended December 31, 2008, 2007 and 2006, respectively.

Shipping and Handling

Shipping and handling costs associated with inbound freight are capitalized to inventories and relieved through cost of sales as inventories are sold. Shipping and handling costs associated with the delivery of products is included in selling, general and administrative expenses. Shipping and handling costs included in selling, general and administrative expenses amounted to $6,444, $6,747 and $6,914 for the years ended December 31, 2008, 2007 and 2006, respectively.

Share-Based Compensation

We account for share-based compensation in accordance with the recognition and measurement provisions of SFAS No. 123R, “Share-Based Payment,” and related interpretations. See Note 6 for information on our share-based compensation plans.

Income Taxes

We record federal and state income taxes currently payable, as well as deferred taxes due to temporary differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities reflect the temporary differences between the financial statement and income tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates is recognized as income or expense in the period that includes the enactment date. Watsco and its eligible subsidiaries file a consolidated United States federal income tax return. As income tax returns are generally not filed until well after the closing process for the December 31 financial statements is complete, the amounts recorded at December 31 reflect estimates of what the final amounts will be when the actual income tax returns are filed for that calendar year. In addition, estimates are often required with respect to, among other things, the appropriate state income tax rates to use in the various states that Watsco and its subsidiaries are required to file, the potential utilization of operating loss carryforwards and valuation allowances required, if any, for tax assets that may not be realizable in the future.

In accordance with Financial Accounting Standards Board (“FASB”) Interpretation (“FIN”) No. 48, “Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109,” we recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the "more-likely-than-not" threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

Earnings per Share

We calculate earnings per share using the two-class method in accordance with SFAS No. 128, "Earnings per Share," as clarified by EITF Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share." EITF Issue No. 03-6 requires the income per share for each class of common stock to be calculated assuming 100% of our earnings are distributed as dividends to each class of common stock based on their respective dividend rights, even though we do not anticipate distributing 100% of our earnings as dividends. The effective result of EITF Issue No. 03-6 is that the calculation of earnings per share for each class of our common stock yields the same basic and diluted earnings per share.

Basic earnings per share for our Common and Class B common stock is computed by dividing net income allocated to Common stock and Class B common stock by the weighted-average number of shares of Common stock and Class B common stock outstanding, respectively. Non-vested (restricted) stock is not included in the computation of basic earnings per share until the securities vest. Diluted earnings per share for our Common stock assume the conversion of all Class B common stock into Common stock and adjust for the dilutive effects of outstanding stock options and shares of non-vested (restricted) stock using the treasury stock method.

For the basic earnings per share calculation, net income available to shareholders is allocated among our two classes of common stock: Common stock and Class B common stock. The allocation among each class is based upon the two-class method on a one-for-one per share basis. The following table shows how net income is allocated using this method:

Years Ended December 31,	2008	2007	2006
Net income available to shareholders	$ 60,369	$ 65,577	$ 82,364
Allocation of net income for Basic:			
Common stock	$ 54,811	$ 59,733	$ 74,891
Class B common stock	5,558	5,844	7,473
	$ 60,369	$ 65,577	$ 82,364

The diluted earnings per share calculation assumes the conversion of all of our Class B common stock into Common stock as of the beginning of the year, so no allocation of earnings to Class B common stock is required.

The following summarizes the weighted-average number of Common and Class B common shares outstanding during the year and is used to calculate earnings per share of Common and Class B common stock including the potentially dilutive impact of stock options and non-vested (restricted) stock, calculated using the treasury stock method, as included in the calculation of diluted weighted-average shares:

Years Ended December 31,	2008	2007	2006
Weighted-average Common and Class B common shares outstanding for basic earnings per share	26,453,167	26,296,555	26,149,676
Weighted-average Common shares outstanding for basic earnings per share	24,017,621	23,952,942	23,776,968
Diluted shares resulting from:			
Stock options	568,560	842,063	1,009,739
Non-vested (restricted) stock	714,772	685,378	669,723
Effect of assuming conversion of Class B common shares into Common stock	2,435,546	2,343,613	2,372,708
Shares for diluted earnings per share	27,736,499	27,823,996	27,829,138

Diluted earnings per share excluded 261,015, 219,640 and 153,500 shares for the years ended December 31, 2008, 2007 and 2006, respectively, related to stock options with an exercise price per share greater than the average market value, resulting in an anti-dilutive effect on diluted earnings per share. In addition, 338,765, 331,987 and 284,486 shares for the years ended December 31, 2008, 2007 and 2006, respectively, related to non-vested (restricted) stock were considered anti-dilutive and excluded from the earnings per share calculation.

Derivative Instruments

We apply the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in OCL and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. See Note 10 for further information regarding hedging activities.

Comprehensive Income

Comprehensive income consists of net income and changes in the unrealized (losses) gains on available-for-sale securities and the effective portion of cash flow hedges as further discussed in Note 10. The components of comprehensive income are as follows:

Years Ended December 31,	**2008**	**2007**	**2006**
Net income	$60,369	$65,577	$82,364
Changes in unrealized losses on derivative instruments, net of income tax (benefit) expense of $(248), $(137) and $205, respectively	(411)	(230)	342
Changes in unrealized (losses) gains on available-for-sale securities arising during the period, net of income tax (benefit) expense of $(170), $218 and $6, respectively	(283)	361	10
Reclassification adjustment for securities gains and losses on a derivative instrument realized in net income, net of income tax expense of $0, $262 and $0, respectively	—	(436)	—
Comprehensive income	$59,675	$65,272	$82,716

Recently Adopted Accounting Standards

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 allows entities the option to measure eligible financial instruments at fair value as of specified dates. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. The provisions of SFAS No. 159 were effective for us beginning January 1, 2008. Upon adoption, we did not elect the fair value option for any items that were not already required to be measured at fair value in accordance with U.S. generally accepted accounting principles. As such, there was no impact on our consolidated financial statements upon adoption of SFAS No. 159.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This standard defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. SFAS No. 157, as originally issued, was effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. However, on February 12, 2008, the FASB issued Staff Position ("FSP") No. SFAS 157-2, which deferred the effective date of SFAS No. 157 for one year, as it relates to nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed in financial statements at fair value on a recurring basis (at least annually). The provisions of SFAS No. 157 as they relate to financial assets and liabilities were effective for us beginning January 1, 2008. Upon adoption, there was no material impact on our consolidated financial statements. We are currently assessing the potential effect of SFAS No. 157 for our nonfinancial assets and liabilities on our consolidated financial statements.

In October 2008, the FASB issued FSP No. SFAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active," which amended SFAS No. 157 to illustrate key considerations in determining the fair value of a financial asset in an inactive market. This FSP was effective for us beginning with the fourth quarter 2008 and did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Standards

In June 2008, the FASB issued FSP EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities.” FSP EITF 03-6-1 requires that non-vested share-based payment awards that contain nonforfeitable rights to dividends be considered participating securities and included in the computation of earnings per share pursuant to the two-class method. This FSP is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Upon adoption, all prior period earnings per share data presented in financial statements after the effective date shall be adjusted retrospectively to conform to the provisions of this FSP. FSP EITF 03-6-1 is effective for us retroactively in the first quarter ending March 31, 2009. We do not expect the adoption of FSP EITF 03-6-1 to have an impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133,” which requires enhanced disclosures about an entity’s derivative and hedging activities. In addition to disclosing the fair values of derivative instruments and their gains and losses in a tabular format, entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement No. 133 and its related interpretations and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We will adopt SFAS No. 161 beginning January 1, 2009 and do not expect a material impact on our consolidated financial statements. SFAS No. 161 does not change the accounting for derivative instruments.

In December 2007, the FASB issued SFAS No. 141R, “Business Combinations.” SFAS No. 141R requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No. 141R significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, transaction costs, in-process research and development and restructuring costs. In addition, under SFAS No. 141R, changes in an acquired entity’s deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008 with early application prohibited. We will adopt SFAS No. 141R beginning January 1, 2009 and will change our accounting treatment for business combinations on a prospective basis.

In December 2007, the FASB also issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements,” an amendment of Accounting Research Bulletin No. 51. This standard clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008 with early application prohibited. We will adopt SFAS No. 160 beginning January 1, 2009 and do not expect a material impact on our consolidated financial statements.

Reclassifications

Certain reclassifications of prior year amounts have been made to conform to the 2008 presentation. These reclassifications had no effect on net income or earnings per share as previously reported.

2. Supplier Concentration

We have seven key suppliers of HVAC/R equipment products. Purchases from these seven suppliers comprised 48%, 48% and 47% of all purchases made in 2008, 2007 and 2006, respectively; with the largest supplier accounting for 16%, 17% and 17% of all purchases made in each of the years ended December 31, 2008, 2007 and 2006. Any significant interruption by the suppliers or a termination of a distribution agreement could disrupt the operations of certain subsidiaries.

3. Property and Equipment

Property and equipment, net, consists of:

December 31,	2008	2007
Land	$ 1,106	$ 1,106
Buildings and improvements	24,447	24,109
Machinery, vehicles and equipment	28,615	29,025
Furniture and fixtures	17,374	18,004
	71,542	72,244
Less: accumulated depreciation and amortization	(47,333)	(45,340)
	$ 24,209	$ 26,904

4. Long-Term Obligations

Revolving Credit Agreement and Long-Term Notes

We maintain a bank-syndicated, unsecured revolving credit agreement that provides for borrowings of up to $300,000. Borrowings are used for general corporate purposes, including seasonal working capital needs, dividends, stock repurchases, acquisitions and issuance of letters of credit. Included in the facility are a $25,000 swingline subfacility and a $50,000 letter of credit subfacility. Borrowings bear interest at primarily LIBOR-based rates plus a spread which ranges from 37.5 to 112.5 basis-points depending upon our ratio of total debt to EBITDA (LIBOR plus 37.5 basis-points at December 31, 2008). We pay a variable commitment fee on the unused portion of the commitment, ranging from 7.5 to 20 basis-points (7.5 basis-points at December 31, 2008). Alternatively, we may elect to have borrowings bear interest at the Prime Rate or the Federal Funds Rate plus our spread. The credit facility matures in August 2012. At December 31, 2008 and 2007, $20,000 and $54,000, respectively, were outstanding under the revolving credit agreement.

The $300,000 unsecured revolving credit agreement contains customary affirmative and negative covenants including two financial covenants with respect to consolidated leverage and interest coverage ratios and limits capital expenditures, dividends and share repurchases in addition to other restrictions. We were in compliance with all covenants and financial ratios at December 31, 2008.

A $125,000 unsecured private placement shelf facility was also maintained as a source of long-term borrowings through December 10, 2007. This uncommitted shelf facility provided fixed-rate financing as a complement to the variable rate borrowings available under the revolving credit agreement.

Other Long-Term Obligations

Other long-term obligations, net of current portion, of $783 and $1,042 at December 31, 2008 and 2007, respectively, relate to a mortgage loan and capital leases on equipment. Interest rates on other debt range from 1.0% to 11.1% and mature at varying dates through 2020. Annual maturities of other long-term obligations for the years subsequent to December 31, 2008 are as follows:

2009	$ 268
2010	163
2011	90
2012	56
2013	47
Thereafter	427
	$ 1,051

Total cash payments for interest were $2,299, $4,557 and $4,345 for the years ended December 31, 2008, 2007 and 2006, respectively.

5. Income Taxes

The components of income tax expense from continuing operations are as follows:

Years Ended December 31,	2008	2007	2006
Federal	$ 32,493	$ 37,387	$ 45,399
State	3,728	3,106	3,941
	$ 36,221	$ 40,493	$ 49,340
Current	$ 35,774	$ 36,376	$ 49,999
Deferred	447	4,117	(659)
	$ 36,221	$ 40,493	$ 49,340

Following is a reconciliation of the effective income tax rate:

Years Ended December 31,	2008	2007	2006
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit and other	2.5	2.5	2.5
	37.5%	37.5%	37.5%

The following is a summary of the significant components of our current and long-term deferred tax assets and liabilities:

December 31,	2008	2007
Current deferred tax assets:		
Allowance for doubtful accounts	$1,626	$1,922
Capitalized inventory costs and inventory reserves	3,074	1,167
Self-insurance reserves	1,452	1,944
Other current deferred tax assets	1,168	1,672
Total current deferred tax assets (1)	7,320	6,705
Long-term deferred tax assets (liabilities):		
Deductible goodwill	(25,503)	(22,680)
Net operating loss carryforwards	492	597
Unrealized loss on derivative instruments	483	236
Depreciation	1,287	1,296
Share-based compensation	8,289	6,397
Other long-term net deferred tax assets	238	83
Total net long-term deferred tax liabilities	(14,714)	(14,071)
Net deferred tax liabilities	$(7,394)	$(7,366)

(1) Current deferred tax assets of $7,320 and $6,705 have been included in the consolidated balance sheets in other current assets at December 31, 2008 and 2007, respectively.

SFAS No. 109, “Accounting for Income Taxes,” requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management has determined that no valuation allowance was necessary at December 31, 2008 to reduce the deferred tax assets to the amount that will more likely than not be realized. At December 31, 2008, there were state net operating loss carryforwards of $13,504, which expire in varying amounts from 2009 through 2028. These amounts are available to offset future taxable income. There were no federal net operating loss carryforwards at December 31, 2008.

We are subject to U.S. federal income tax and income tax of multiple state jurisdictions. We are open to tax audits in the various jurisdictions until the respective statutes of limitations expire. In June 2008, the Internal Revenue

Service finalized an examination of our federal income tax returns for the 2004 and 2005 tax years. The adjustments resulting from this examination did not have a material effect on our consolidated financial position, results of operations or cash flows. We are no longer subject to U.S. federal tax examinations for tax years prior to 2005. For the majority of states, we are no longer subject to tax examinations for tax years prior to 2004. In connection with our adoption of FIN No. 48, we analyzed the filing positions in the federal and all state jurisdictions where we are required to file income tax returns, as well as all open tax years in these jurisdictions. There was no material impact on our consolidated financial statements upon adoption of FIN No. 48 on January 1, 2007.

As of December 31, 2008 and 2007, the total amount of gross unrecognized tax benefits (excluding the federal benefit received from state positions) was $2,296 and $2,173, respectively. Of these totals, $1,803 and $1,723, respectively, (net of the federal benefit received from state positions) represent the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate. Our continuing practice is to recognize penalties within selling, general and administrative expenses and interest related to income tax matters in income tax expense in the consolidated statements of income. As of December 31, 2008 and 2007, the cumulative amount of estimated accrued interest and penalties resulting from such unrecognized tax benefits was $362 and $217, respectively, and is included in accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

The change in gross unrecognized tax benefits during 2008 and 2007 is as follows:

Gross balance at January 1, 2007	$	894
Additions based on tax positions related to the current year		1,226
Additions for tax positions of prior years		303
Reductions for tax positions of prior years		(250)
Gross balance at December 31, 2007		2,173
Additions based on tax positions related to the current year		256
Additions for tax positions of prior years		69
Reductions for tax positions of prior years		(202)
Gross balance at December 31, 2008	$	2,296

Total cash payments, net of refunds, for income taxes were $25,270, $32,329 and $47,961 for the years ended December 31, 2008, 2007 and 2006, respectively.

6. Share-Based Compensation and Benefit Plans

Share-Based Compensation Plans

We have two share-based compensation plans for employees. The 2001 Incentive Compensation Plan (the “2001 Plan”) provides for the award of a broad variety of share-based compensation alternatives such as non-qualified stock options, incentive stock options, non-vested (restricted) stock, performance awards, dividend equivalents, deferred stock and stock appreciation rights at no less than 100% of the market price on the date the award is granted. To date, awards under the 2001 Plan consist of non-qualified stock options and non-vested (restricted) stock. Under the 2001 Plan, awards for an aggregate of 3,000,000 shares of Common and Class B common stock may be granted. A total of 1,573,630 shares of Common stock, net of cancellations and 1,044,811 shares of Class B common stock, net of cancellations have been awarded under the 2001 Plan as of December 31, 2008. There were 381,559 shares of common stock reserved for future grants as of December 31, 2008 under the 2001 Plan. There are 773,775 options of common stock outstanding under the 2001 Plan at December 31, 2008. Options under the 2001 Plan vest over two to five years of service and have contractual terms of five to ten years.

Awards of non-vested (restricted) stock, which are granted at no cost to the employee, vest upon attainment of a certain age, generally the employee’s respective retirement age. Vesting may be accelerated in certain circumstances prior to the original vesting date.

We also maintain the 1991 Stock Option Plan (the “1991 Plan”), which expired during 2001; therefore, no additional options may be granted. There are 611,125 options of common stock outstanding under the 1991 Plan at December 31, 2008. Options under the 1991 Plan vest over two to five years of service and have contractual terms of ten years.

A summary of stock option activity under the 2001 Plan and 1991 Plan as of December 31, 2008, and changes during 2008, is as follows:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2008	1,970,908	$ 20.37		
Granted	53,500	40.54		
Exercised	(627,308)	19.11		
Forfeited	(9,600)	36.36		
Expired	(2,600)	19.89		
Options outstanding at December 31, 2008	1,384,900	$ 21.79	2.03	$ 26,722
Options exercisable at December 31, 2008	1,129,365	$ 16.28	1.86	$ 26,360

The weighted-average grant date fair value of stock options granted during 2008, 2007 and 2006 was $7.06, $11.07 and $14.99, respectively. The total intrinsic value of stock options exercised during 2008, 2007 and 2006 was $11,986, $3,841 and $22,390, respectively. The fair value of stock options that vested during 2008, 2007 and 2006 was $2,158, $1,120 and $497, respectively.

A summary of non-vested (restricted) stock issued as of December 31, 2008, and changes during 2008, is shown below:

	Shares	Weighted-Average Grant Date Fair Value
Non-vested (restricted) stock outstanding at January 1, 2008	1,755,999	$ 29.77
Granted	45,000	43.04
Vested	(13,830)	50.93
Forfeited	-	-
Non-vested (restricted) stock outstanding at December 31, 2008	1,787,169	$ 29.94

The weighted-average grant date fair value of non-vested (restricted) stock granted during 2008, 2007 and 2006 was $43.04, $52.34 and $67.94, respectively. The fair value of stock vested during 2008 and 2007 was $704 and $128, respectively. No non-vested (restricted) stock vested during 2006.

Share-Based Compensation Fair Value Assumptions

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option pricing valuation model based on the weighted-average assumptions noted in the table below. The fair value of each stock option award, which is subject to graded vesting, is expensed, net of estimated forfeitures, on a straight-line basis over the requisite service period for each separately vesting portion of the stock option. We use historical data to estimate stock option forfeitures within the valuation model. All of the awards granted during 2008 meet the definition of “plain vanilla” options, as defined in SAB No. 107. The expected term of stock option awards granted represents the period of time that stock option awards granted are expected to be outstanding and was calculated using the simplified method for plain vanilla options. We will continue to use the simplified method until we have the historical data necessary to provide a reasonable estimate of expected life, in accordance with SAB No. 107, as amended by SAB No. 110. The risk-free rate for periods within the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the stock option award is granted with a maturity equal to the expected term of the stock option award. Expected volatility is based on historical volatility of our stock.

The weighted-average assumptions relating to the valuation of our stock options were as follows:

Years Ended December 31,	2008	2007	2006
Expected term in years	4.25	4.25	4.25
Risk-free interest rate	2.13%	4.38%	4.91%
Expected volatility	27.33%	24.29%	24.08%
Expected dividend yield	3.40%	2.26%	1.35%

Share-Based Compensation Expense

Share-based compensation expense is included in selling, general and administrative expenses in our consolidated statements of income. The following table provides information on share-based compensation expense and tax benefits recognized:

Years Ended December 31,	2008	2007	2006
Share-based compensation expense	$ 6,454	$ 5,970	$ 5,020
Income tax benefit	(2,420)	(2,239)	(1,883)
Share-based compensation expense, net of tax	$ 4,034	$ 3,731	$ 3,137

Cash received from Common stock issued as a result of stock options exercised during 2008, 2007 and 2006, was $5,235, $3,351 and $2,214, respectively. During 2008, 2007 and 2006, 261,014 shares of Common and Class B common stock with an aggregate market value of $9,929, 17,291 shares of Common stock with an aggregate market value of $902 and 150,086 shares of Common stock with an aggregate market value of $10,563, respectively, were delivered as payment in lieu of cash for stock option exercises and related tax withholdings. Upon delivery these shares were retired. The tax benefit realized for the tax deductions from share-based compensation plans totaled $5,095, $3,542 and $8,396, for the years ended December 31, 2008, 2007 and 2006, respectively.

At December 31, 2008, there was $642 of unrecognized share-based compensation expense related to stock options granted under the 2001 Plan, which is expected to be recognized over a weighted-average period of 1.5 years. At December 31, 2008, there was $34,471 of unrecognized share-based compensation expense related to non-vested (restricted) stock, which is expected to be recognized over a weighted-average period of 9.6 years. In the event that vesting is accelerated for any circumstance, as defined in the related agreements, the remaining unrecognized share-based compensation expense would be immediately recognized as a charge to earnings. Approximately $23,000 of the unrecognized share-based compensation for shares of non-vested stock is related to awards granted to our Chief Executive Officer that vest in approximately 10 years upon his attainment of age 78.

Employee Stock Purchase Plan

The Watsco, Inc. Amended and Restated 1996 Qualified Employee Stock Purchase Plan (the “Watsco ESPP”) provides for up to 1,000,000 shares of Common stock to be available for purchase by our full-time employees with at least 90 days of service. The plan allows participating employees to purchase, through payroll deductions or lump-sum contribution, shares of Common stock at specified times subject to certain restrictions. Effective January 1, 2006, the Watsco ESPP was amended to change the discount that employees can purchase shares of our Common stock to 5% of the fair market value and to remove certain restrictions. Prior to the amendment, employees could purchase shares of our Common stock at 85% of the fair market value. During 2008, 2007 and 2006, employees purchased 9,058, 11,059 and 28,232 shares of Common stock at an average price of $39.81, $47.39 and $48.88 per share, respectively. Cash dividends received by the Watsco ESPP were reinvested in Common stock and resulted in additional shares issued in the amount of 7,430, 5,355 and 4,162 for the years ended December 31, 2008, 2007 and 2006, respectively. We received net proceeds of $681, $780 and $1,608, respectively, during 2008, 2007 and 2006, for shares of Watsco Common stock issued under the Watsco ESPP. At December 31, 2008, 101,423 shares remained available for purchase under the plan.

401(k) Plan

We have a profit sharing retirement plan for our employees that is qualified under Section 401(k) of the Internal Revenue Code. Annual matching contributions are made based on a percentage of eligible employee compensation deferrals. The contribution is made in cash or by the issuance of Common stock to the plan on behalf of our employees. For the years ended December 31, 2008, 2007 and 2006, the aggregate contribution required to the plan was $1,249, $1,279 and $1,140, respectively. This contribution is made during the first quarter of the subsequent year.

7. Acquisitions

In August 2007, we acquired all of the assets and assumed all of the liabilities of ACR Group, Inc. ("ACR"), one of the nation's largest distributors of air conditioning and heating products with 54 locations in Florida, Texas, California, Georgia, Tennessee, Arizona, Colorado, Louisiana, Nevada, and New Mexico, for $108,332 in cash, including acquisition costs and net of cash acquired. Based on a third-party valuation, the purchase price, including acquisition costs, resulted in the recognition of $67,361 in goodwill and other intangible assets, which is not deductible for tax purposes. The fair values of the assets acquired and liabilities assumed for the acquisition is as follows:

Accounts receivable	$ 27,493
Inventories	43,883
Property and equipment	6,256
Goodwill	60,811
Intangibles	6,550
Current and other assets	6,454
Accounts payable and accrued expenses	(38,579)
Other long-term liabilities	(4,536)
Cash used in acquisition, net of cash acquired	$ 108,332

The unaudited proforma financial information combining our results of operations with the operations of ACR as if the acquisition had occurred on January 1, 2006 is as follows:

Years ended December 31,	2007	2006
Revenues	$1,893,218	$2,011,609
Net income from continuing operations	$ 67,989	$ 85,221
Basic earnings per share for Common and Class B common stock:		
Net income from continuing operations	$ 2.59	$ 3.26
Diluted earnings per share for Common and Class B common stock:		
Net income from continuing operations	$ 2.44	$ 3.06

This unaudited proforma financial information is presented for informational purposes only. The unaudited proforma financial information from the beginning of the periods presented until the acquisition date includes adjustments to record income taxes at our effective tax rate, interest expense on borrowings incurred to acquire the business and does not include adjustments to remove certain corporate expenses of ACR, which may not be incurred in future periods, adjustments for depreciation and amortization, or synergies (primarily related to improved gross profit and lower general and administrative expenses) that may be realized subsequent to the acquisition date. The unaudited proforma financial information may not necessarily reflect our future results of operations or what the results of operations would have been had we owned and operated ACR as of the beginning of the periods presented.

In July 2007, one of our subsidiaries acquired substantially all of the assets and assumed certain liabilities of a wholesale distributor of air conditioning and heating products operating from one location in Gonzales, Louisiana. The purchase price of the acquisition included a cash payment of $467, net of cash acquired.

In December 2006, one of our subsidiaries completed the acquisition of a distributor of air conditioning and heating products with 10 locations in Nebraska, Missouri and Kansas. The purchase price of the acquisition included a cash payment of $5,190.

In October 2006, one of our subsidiaries completed the acquisition of a wholesale distributor of refrigeration equipment with eight locations in Tennessee, Mississippi and Arkansas. The purchase price of the acquisition included a cash payment of $3,705, net of cash acquired.

In March 2006, one of our subsidiaries completed the acquisition of a refrigeration equipment distributor with locations in Birmingham and Montgomery, Alabama for cash consideration of $798, net of cash acquired.

In February 2006, one of our subsidiaries completed the purchase of the net assets and business of a wholesale distributor of air conditioning and heating products operating from a single location in Kansas City, Missouri for cash consideration of $293, net of cash acquired.

The results of operations of these locations have been included in the consolidated financial statements from their respective dates of acquisition. The proforma effect of these acquisitions was not deemed significant on either an individual or aggregate basis to the consolidated financial statements for the years ended December 31, 2008, 2007 and 2006.

8. Goodwill and Intangibles

The recoverability of goodwill and indefinite life intangibles is evaluated at least annually and when events or changes in circumstances indicate that the carrying amount of goodwill and indefinite life intangibles may not be recoverable. The identification and measurement of impairment involves the estimation of the fair value of the reporting unit and indefinite life intangibles and contains uncertainty because management must use judgment in determining appropriate assumptions to be used in the measurement of fair value. The estimate of fair value of the reporting unit is based on the best information available as of the date of the assessment 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, the continuing declining economic environment or market conditions.

On January 1, 2009, the annual impairment test was performed and it was determined there was no impairment. No factors have developed since the last impairment test that would indicate that the carrying value of goodwill and indefinite life intangibles may not be recoverable. The carrying amount of goodwill and intangibles at December 31, 2008 was $230,468. Although no impairment has been recorded to date, there can be no assurances that future impairments will not occur. An adjustment to the carrying value of goodwill and intangibles could materially impact the consolidated results of operations.

The changes in the carrying amount of goodwill are as follows:

Balance at December 31, 2006	$ 157,558
Acquired goodwill	59,571
Balance at December 31, 2007	217,129
Purchase price adjustments, net	2,681
Balance at December 31, 2008	$ 219,810

Intangible assets, net, included in other assets in the consolidated balance sheets consist of:

December 31,	2008	2007
Unamortizable intangible assets:		
Trade names and trademarks	$ 5,683	$ 5,683
Amortizable intangible assets:		
Customer relationships	5,420	5,420
Non-compete agreements	369	369
Less: accumulated amortization	(814)	(355)
Amortizable intangible assets, net	4,975	5,434
	$ 10,658	$ 11,117

9. Shareholders’ Equity

Common stock and Class B common stock share equally in earnings and are identical in most other respects except (i) Common stock is entitled to one vote on most matters and each share of Class B common stock is entitled to ten votes; (ii) shareholders of Common stock are entitled to elect 25% of the Board of Directors (rounded up to the nearest whole number) and Class B shareholders are entitled to elect the balance of the Board of Directors; (iii) cash dividends may be paid on Common stock without paying a cash dividend on Class B common stock and no cash dividend may be paid on Class B common stock unless at least an equal cash dividend is paid on Common stock and (iv) Class B common stock is convertible at any time into Common stock on a one-for-one basis at the option of the shareholder.

Our Board of Directors has authorized the repurchase, at management's discretion, of 7,500,000 shares 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. During 2008, 2007 and 2006, 105,600, 231,100 and 243,600 Common shares were repurchased at a cost of $4,820, $9,386 and $15,328, respectively. In aggregate since the inception of the repurchase plan in 1999, 6,322,650 shares of Common stock and 48,263 shares of Class B common stock were repurchased at a cost of $114,425. The remaining 1,129,087 shares authorized for repurchase are subject to certain restrictions included in our debt agreement.

10. Financial Instruments

Recorded Financial Instruments

Recorded financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, the current portion of long-term obligations, borrowings under our revolving credit agreement and debt instruments included in other long-term obligations. At December 31, 2008 and 2007, the fair values of cash and cash equivalents, accounts receivable, accounts payable and the current portion of long-term obligations approximated their carrying values due to the short-term nature of these instruments.

The fair values of variable rate borrowings under the revolving credit agreement and debt instruments included in long-term obligations also approximate their carrying value based upon interest rates available for similar instruments with consistent terms and remaining maturities.

Derivative Financial Instruments

Periodically, we enter into interest rate swap agreements to reduce our exposure to market risks from changing interest rates under our revolving credit agreement. Under the terms of the swap agreements, we agree to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to the notional principal amount. Any differences paid or received on our interest rate swap agreements are recognized as adjustments to interest expense over the life of each swap, thereby adjusting the effective interest rate on the underlying obligation. Financial instruments are not held or issued for trading purposes. In order to obtain hedge accounting treatment, any derivatives used for hedging purposes must be designated as, and effective as, a hedge of an identified risk exposure at the inception of the contract. Changes in the fair value of the derivative contract must be highly correlated with changes in the fair value of the underlying hedged item at inception of the hedge and over the life of the hedge contract. Accordingly, we record all derivative instruments as either assets or liabilities on the consolidated balance sheets at their respective fair values. We record the change in the fair value of a derivative instrument designated as a cash flow hedge in other comprehensive income to the extent the derivative is effective, and recognize the change in the statement of operations when the hedged item affects earnings. All of our interest rate hedges are designated as cash flow hedges.

At December 31, 2008 and 2007, two interest rate swap agreements were in effect with notional values of $10,000 each, maturing in October 2009 and October 2011. The swap agreement maturing in October 2009 exchanges the variable rate of 30-day LIBOR to a fixed interest rate of 5.04%. The swap agreement maturing in October 2011 exchanges the variable rate of 30-day LIBOR to a fixed interest rate of 5.07%. During the years ended December 31, 2008 and 2007, both hedging relationships were determined to be highly effective in achieving offsetting changes in cash flows.

We were party to an interest rate swap agreement with a notional amount of $30,000, which matured on October 9, 2007, that was designated as a cash flow hedge and effectively exchanged the variable rate of 90-day LIBOR to a fixed interest rate of 6.25%. During 2007 and 2006, the hedging relationship was determined to be highly effective in achieving offsetting changes in cash flows.

The negative fair value of the derivative financial instruments was $1,287 and $628 at December 31, 2008 and 2007, respectively, and is included, net of accrued interest, in deferred income taxes and other liabilities in the consolidated balance sheets. At December 31, 2008, 2007 and 2006, $778, net of deferred tax benefits of $467, $366, net of deferred tax benefits of $219 and $136, net of deferred tax benefits of $82 was included in accumulated OCL associated with cash flow hedges.

The net change in OCL during 2008, 2007 and 2006, reflected the reclassification of $274, net of income tax benefit of $164, $128, net of income tax benefit of $77 and $221, net of income tax benefit of $132, respectively, of unrealized losses from accumulated OCL to current period earnings (recorded in interest expense, net in the consolidated statements of income). The net unrealized loss recorded in accumulated OCL will be reclassified to earnings on a monthly basis as interest payments occur. We estimate that approximately $800 in unrealized losses on the derivative instruments accumulated in OCL are expected to be reclassified to earnings during 2009 using a current one month LIBOR-based average receive rate (1.17% at December 31, 2008).

Off-Balance Sheet Financial Instruments

At December 31, 2008 and 2007, we were contingently liable under standby letters of credit aggregating $4,627 and $4,992, respectively that are primarily used as collateral to cover any contingency related to additional risk assessments pertaining to the self-insurance programs. We do not expect any material losses to result from the issuance of the standby letters of credit because claims are not expected to exceed premiums paid. Accordingly, the estimated fair value of these instruments is zero.

Concentrations of Credit Risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash investments and accounts receivable. Temporary cash investments are placed with high credit quality financial institutions and we limit the amount of credit exposure to any one financial institution or investment. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers comprising the customer base and their dispersion across many different geographical regions.

11. Fair Value Measurements

Effective January 1, 2008, we adopted SFAS No. 157 for our financial assets and liabilities, which defines fair value as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS No. 157 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2008, segregated among the appropriate levels within the fair value hierarchy:

Description	Fair Value at December 31, 2008	Fair Value Measurements at December 31, 2008 Using		
		Level 1	Level 2	Level 3
Assets:				
Available-for-sale securities	$279	$279	-	-
Liabilities:				
Derivative financial instruments	$1,287	-	$1,287	-

The following is a description of the valuation techniques used for these items, as well as the general classification of such items pursuant to the fair value hierarchy of SFAS No. 157:

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

Derivative financial instruments – the derivatives are pay-variable, receive fixed interest rate swaps based on 30-day LIBOR. Fair value is based on model-derived valuations using the respective LIBOR rate, which is observed at quoted intervals for the full term of the swaps. Therefore, the derivatives are classified within Level 2 of the fair value hierarchy. See Note 10 for further discussion on our derivative financial instruments.

12. Commitments and Contingencies

Litigation, Claims and Assessments

In November 2007, one of our subsidiaries was named in a complaint filed in the Circuit Court of the Seventh Judicial Circuit, in and for, Volusia County, Florida, brought by CODISCO, Inc. and CODISCO International, Inc. ("CODISCO"), an existing landlord of facilities leased by our subsidiary. CODISCO alleged that eleven former and existing leased premises were not properly maintained and that our subsidiary failed to perform the necessary repairs breaching the lease agreements. During January 2009, an Order of Joint Stipulation for Voluntary Dismissal with Prejudice regarding this complaint was granted.

We are involved in other 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 impact to our financial condition or results of operations.

Self-Insurance

Self-insurance reserves are maintained for company-wide casualty insurance programs and for one subsidiary's health benefit program. 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 occurs 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 amount of $3,875 and $4,593 at December 31, 2008 and 2007, respectively, were established related to such insurance programs and are included in accrued expenses and other current liabilities in our consolidated balance sheets.

Variable Interest Entities

As of December 31, 2008, in conjunction with our casualty insurance programs, limited equity interests are held in a captive insurance entity. The programs permit us to self-insure a portion of losses, to gain access to a wide array of safety-related services, to pool insurance risks and resources in order to obtain more competitive pricing for administration and reinsurance and to limit risk of loss in any particular year. The entities meet the definition of variable interest entities ("VIEs"), however, based on the criteria set forth in FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51," there is not a requirement to include these entities in the consolidated financial statements. The maximum exposure to loss related to our involvement with these entities is limited to approximately $5,200. See Note 12, "Self-Insurance," for additional discussion of commitments associated with the insurance programs and Note 10, "Off-Balance Sheet Financial Instruments," for further information on standby letters of credit. As of December 31, 2008, there are no other entities that met the definition of a VIE.

Minimum Royalty Payments

We are obligated under a licensing agreement with Whirlpool Corporation to make minimum annual royalty payments of $1,000 through 2011.

Operating Leases

We are obligated under non-cancelable operating leases of real property, equipment, vehicles and a corporate aircraft used in our operations with varying terms through 2017. Some of our leases contain renewal options, some of which involve rate increases. For leases with step rent provisions whereby the rental payments increase incrementally over the life of the lease, we recognize the total minimum lease payments on a straight-line basis over the lease term. The corporate aircraft lease is subject to adjustment from changes in LIBOR-based interest rates.

As of December 31, 2008, future minimum lease payments under non-cancelable operating leases are as follows:

2009	$	46,255
2010		36,744
2011		26,943
2012		18,724
2013		12,085
Thereafter		14,698
	$	155,449

Rental expense for the years ended December 31, 2008, 2007 and 2006 was $45,606, $42,739 and $36,333, respectively.

13. Discontinued Operations

During June 2007, our Board of Directors approved and we executed an agreement to sell the stock of our non-core staffing unit, Dunhill Staffing Systems, Inc. ("Dunhill"). The transaction closed on July 19, 2007. Dunhill represented our "other" segment and consequently, the amounts related to this operation are presented as discontinued operations in our consolidated statements of income and our consolidated statements of cash flows for all periods presented. The divestiture of Dunhill did not have a material impact on our financial condition or results of operations.

Included in discontinued operations as presented in our consolidated statements of income are the following:

Years Ended December 31,	2007	2006
Revenues	$ 12,431	$ 29,545
(Loss) income from discontinued operations	(3,060)	210
Income tax benefit (expense)	1,148	(79)
Net (loss) income from discontinued operations	(1,786)	131
Loss on sale of discontinued operations	(126)	-

14. Related Party Transaction

A member of the Board of Directors is the President and Chief Executive Officer of Greenberg Traurig, LLP, which serves as our principal outside counsel and receives customary fees for legal services. During 2008, 2007 and 2006, this firm was paid $128, $78 and $295, respectively, for services performed.

15. Subsequent Event

In February 2009, our Board of Directors approved an increase in the quarterly cash dividend to $0.48 per share from $0.45 per share.

WATSCO, INC. AND SUBSIDIARIES
SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(In thousands, except per share data)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Year Ended December 31, 2008					
Revenues (1)	$ 380,399	$ 509,822	$ 475,225	$ 334,791	$ 1,700,237
Gross profit	98,004	131,060	126,673	86,257	441,994
Net income	$ 7,644	$ 26,050	$ 23,332	$ 3,343	$ 60,369
Earnings per share for Common and Class B common stock (2):					
Basic	$ 0.29	$ 0.98	$ 0.88	$ 0.13	$ 2.28
Diluted	$ 0.28	$ 0.94	$ 0.84	$ 0.12	$ 2.18
Year Ended December 31, 2007					
Revenues (1)	$ 370,681	$ 471,110	$ 518,596	$ 397,635	$ 1,758,022
Gross profit	95,313	119,592	130,932	101,148	446,985
Net income from continuing operations	10,978	24,448	25,364	6,699	67,489
Loss from discontinued operations, net of income taxes	164	1,598	116	34	1,912
Net income	$ 10,814	$ 22,850	$ 25,248	$ 6,665	$ 65,577
Basic earnings per share for Common and Class B common stock (2):					
Net income from continuing operations	$ 0.42	$ 0.93	$ 0.96	$ 0.26	$ 2.57
Net loss from discontinued operations	0.01	0.06	—	—	0.07
Net income	$ 0.41	$ 0.87	$ 0.96	$ 0.25	$ 2.49
Diluted earnings per share for Common and Class B common stock (2):					
Net income from continuing operations	$ 0.40	$ 0.88	$ 0.91	$ 0.24	$ 2.43
Net loss from discontinued operations	0.01	0.06	—	—	0.07
Net income	$ 0.39	$ 0.82	$ 0.90	$ 0.24	$ 2.36

(1) Sales of residential central air conditioners, heating equipment and related parts and supplies are seasonal. Demand related to the residential central air conditioning replacement market is highest in the second and third quarters with demand for heating equipment usually highest in the fourth quarter. Demand related to the new construction sectors throughout most of the markets is fairly even during the year except for dependence on housing completions and related weather and economic conditions.

(2) Quarterly earnings per Common and Class B common share are calculated on an individual basis and, because of rounding and changes in the weighted-average shares outstanding during the year, the summation of each quarter may not equal the amount calculated for the year as a whole.