

WATSCO INC  
Form 10-Q  
November 08, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the Quarterly Period Ended September 30, 2012

or

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

Commission file number 1-5581

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

# WATSCO, INC.

(a Florida Corporation)

2665 South Bayshore Drive, Suite 901

Miami, Florida 33133

Telephone: (305) 714-4100

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 29,774,883 shares of Common stock (\$0.50 par value), excluding treasury shares of 6,322,650 and 4,717,653 shares of Class B common stock (\$0.50 par value), excluding treasury shares of 48,263, were outstanding as of November 2, 2012.

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**WATSCO, INC. AND SUBSIDIARIES**

**QUARTERLY REPORT ON FORM 10-Q**

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## WATSCO, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF INCOME

(In thousands, except per share data)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues	<b>\$ 1,020,859</b>	\$ 914,039	<b>\$ 2,666,172</b>	\$ 2,331,926
Cost of sales	<b>778,354</b>	694,632	<b>2,034,570</b>	1,764,342
Gross profit	<b>242,505</b>	219,407	<b>631,602</b>	567,584
Selling, general and administrative expenses	<b>156,808</b>	145,096	<b>440,125</b>	401,034
Operating income	<b>85,697</b>	74,311	<b>191,477</b>	166,550
Interest expense, net	<b>1,185</b>	1,352	<b>3,423</b>	3,171
Income before income taxes	<b>84,512</b>	72,959	<b>188,054</b>	163,379
Income taxes	<b>24,981</b>	21,141	<b>54,129</b>	48,167
Net income	<b>59,531</b>	51,818	<b>133,925</b>	115,212
Less: net income attributable to noncontrolling interest	<b>18,526</b>	18,271	<b>45,350</b>	38,142
Net income attributable to Watsco, Inc.	<b>\$ 41,005</b>	\$ 33,547	<b>\$ 88,575</b>	\$ 77,070
Earnings per share for Common and Class B common stock:				
Basic	<b>\$ 1.19</b>	\$ 1.02	<b>\$ 2.62</b>	\$ 2.35
Diluted	<b>\$ 1.19</b>	\$ 1.02	<b>\$ 2.61</b>	\$ 2.34

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

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## WATSCO, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

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

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

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WATSCO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

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

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Noncontrolling interest	<b>295,849</b>	198,920
Total shareholders' equity	<b>1,221,323</b>	1,001,710
	<b>\$ 1,799,817</b>	\$ 1,268,148

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

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## WATSCO, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF CASH FLOWS

Nine Months Ended September 30, 2012 and 2011

(In thousands)

	2012	2011
Cash flows from operating activities:		
Net income	<b>\$ 133,925</b>	\$ 115,212
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	<b>11,276</b>	8,549
Share-based compensation	<b>5,609</b>	4,658
Deferred income tax provision	<b>4,743</b>	3,333
Non-cash contribution for 401(k) plan	<b>1,772</b>	1,718
Provision for doubtful accounts	<b>396</b>	1,115
Loss on sale of property and equipment	<b>179</b>	409
Excess tax benefits from share-based compensation	<b>(913)</b>	(724)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	<b>(81,793)</b>	(62,539)
Inventories	<b>(98,001)</b>	(96,620)
Accounts payable and other liabilities	<b>87,696</b>	(26,805)
Other, net	<b>(446)</b>	(7,010)