

WATSCO INC  
Form DEF 14A  
April 17, 2014  
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**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:

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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**Watsco, Inc.**

**2665 South Bayshore Drive, Suite 901**

**Miami, Florida 33133**

**NOTICE OF THE 2014 ANNUAL MEETING OF SHAREHOLDERS**

**Date:** Monday, May 19, 2014

**Time:** 9:00 a.m., Eastern Daylight Time

**Place:** Watsco, Inc. Corporate Office  
2665 South Bayshore Drive, Suite 901

Miami, Florida 33133

**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 three directors.
2. To consider and act upon a proposal to approve the Watsco, Inc. 2014 Incentive Compensation Plan.
3. To consider and vote on a non-binding advisory resolution regarding the compensation of our named executive officers.
4. 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) or our Class B common stock (NYSE: WSOB) at the close of business on April 4, 2014.

**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 17, 2014

**This is an important meeting, and all shareholders of record as of April 4, 2014 are invited to attend the meeting and vote in person. We respectfully urge those shareholders who are unable to attend 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. Any shareholder who executes a proxy card may nevertheless attend the meeting, revoke his or her proxy and vote his or her shares in person.**

**NOTICE: Brokers are not permitted to vote on any of the proposals contained in this Proxy Statement without instructions from the beneficial owner of shares entitled to vote at the meeting. Therefore, if you hold your shares through a broker, bank or other nominee and you do not vote your shares in one of the ways described in this Proxy Statement, then your shares will not be voted in respect of any proposal contained in this Proxy Statement.**

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\* To be voted on at the meeting

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**WATSCO, INC.**

**2665 South Bayshore Drive, Suite 901**

**Miami, Florida 33133**

**PROXY STATEMENT**

**Important Notice Regarding the Availability of Proxy Materials for the Annual Shareholders Meeting to Be Held on May 19, 2014**

**The Company's 2013 Annual Report and this Proxy Statement are available at: [www.watsco.com](http://www.watsco.com)**

You are receiving this Proxy Statement because you owned shares of Watsco, Inc. common stock as of April 4, 2014, which entitles you to vote those shares at our 2014 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 17, 2014. Shareholders should review the information contained in this Proxy Statement together with our 2013 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 or linked thereto are not incorporated by reference or otherwise made a part of this Proxy Statement.

**INFORMATION ABOUT OUR ANNUAL MEETING**

***When and where is the annual meeting?***

We will hold the annual shareholder meeting on Monday, May 19, 2014, at 9:00 a.m., Eastern Daylight Time at the Watsco, Inc. Corporate Office, 2665 South Bayshore Drive, Suite 901, Miami, Florida 33133.

***Who can attend the annual meeting?***

Only shareholders of record as of April 4, 2014 (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 evidencing 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 2014 annual meeting will be held for the following purposes:

1. To vote on the election of directors as follows:

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- a. for the holders of Common stock to elect Steven R. Fedrizzi to serve as a director until our 2017 annual meeting of shareholders, or until his successor is duly elected and qualified; and

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b. for the holders of Class B common stock to elect Denise Dickins, Paul F. Manley and Bob L. Moss to serve as directors until our 2017, 2017 and 2016 annual meetings of shareholders, respectively, or until their respective successors are duly elected and qualified.

2. To consider and vote on a proposal to approve the Watsco, Inc. 2014 Incentive Compensation Plan.

3. To consider and vote on a non-binding advisory resolution regarding the compensation of our named executive officers.

4. 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 4, 2014 as the record date for the annual meeting. Holders of Watsco Common stock 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 annual meeting. As of the record date, there were 30,094,577 shares of our Common stock outstanding (representing 36,417,227 shares issued less 6,322,650 shares held in the Company's treasury) and 4,870,071 shares of our Class B common stock outstanding (representing 4,918,334 shares issued less 48,263 shares held in the Company's treasury), all of which are entitled to be voted.

A list of shareholders will be available at our corporate office at 2665 South Bayshore Drive, Suite 901, Miami, Florida 33133 during the ten days immediately preceding the annual meeting, and this list will be available at the annual meeting itself for examination by any shareholder entitled to attend the annual meeting.

***What are the voting rights of Watsco shareholders?***

Holders of our Common stock are entitled to one (1) vote per share on each matter that is submitted to shareholders for approval. Additionally, holders of our Common stock are entitled to vote as a separate class for the election of 25% of our directors (rounded up to the next whole number), which presently equates to three (3) directors. Holders of our Class B common stock are entitled to ten (10) votes per share on each matter that is submitted to shareholders for approval. Additionally, holders of our Class B common stock are entitled to vote as a separate class for the election of 75% of our directors (rounded down to the next whole number), which presently equates to six (6) directors. Except for the election of directors, as described above, or as otherwise required by applicable law, holders of our Common stock and our Class B common stock vote together as a single class on all matters submitted to a vote of our shareholders.

***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, you must 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 because your name does not appear on the list of our registered shareholders maintained with our transfer agent. If you hold shares in street name, you will receive voting instructions from your brokerage firm, bank, trustee or other nominee. If you are a beneficial

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shareholder and would like to vote in person, then you must attend our annual meeting, bring valid photo identification, bring a brokerage statement validating your share ownership as of the record date and obtain a legal proxy from your broker, bank or other nominee 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 corporate office 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 revoke your proxy and change your vote by following the nominee's procedures for revoking or changing your proxy.

### ***What are the voting recommendations of the Board?***

The Board recommends that you vote:

FOR the election of each of the director nominees. Please see Page 6 in this Proxy Statement for information on the experience and qualifications of each nominee;

FOR approval of the Watsco, Inc. 2014 Incentive Compensation Plan; and

FOR approval of a non-binding advisory resolution regarding the compensation of our named executive officers.

### ***What happens if I submit or return my proxy card without voting?***

When you properly submit your proxy, the shares it represents will be voted at the annual meeting in accordance with your directions. If you properly submit your proxy with no direction, the proxy will be voted:

FOR the election of each of the director nominees named in this Proxy Statement;

FOR approval of the Watsco, Inc. 2014 Incentive Compensation Plan;

FOR approval of a non-binding advisory resolution regarding the compensation of our named executive officers; and

In accordance with the recommendation of our board of Directors For or Against all other business as may properly be brought before the annual meeting and at any adjournments or postponements of the annual meeting.

### ***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 conduct of business at the annual meeting. As of the record date, there were 30,094,577 shares of Common stock outstanding and 4,870,071 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 1.0% of the outstanding shares of Common stock and (ii) Class B common stock representing 91.9% of the outstanding shares of Class B common stock, together representing 57.3% 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



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date and thus constitute a quorum, and we believe that such persons and entities will vote all of their shares of Common stock and Class B common stock in favor of all proposals set forth in the Proxy Statement.

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If less than a majority of the combined voting power of the outstanding shares of Common stock and Class B common stock is represented at the annual meeting, a majority of the shares so represented may adjourn the annual meeting to another date, time or place. Notice need not be given of the new date, time or place if announced at the annual meeting before an adjournment is taken, unless the Board, after adjournment, fixes a new record date for the annual meeting (in which case a notice of the adjourned meeting will be given to shareholders of record on such new record date, each of whom would be entitled to vote at the adjourned meeting).

### ***How many votes are needed for the proposals to pass?***

#### *Election of Directors*

If a quorum is present 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 vote on a nominee, shall be elected as directors.

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.

#### *Approval of the Watsco, Inc. 2014 Incentive Compensation Plan*

If a quorum is present, approval of the Watsco, Inc. 2014 Incentive Compensation Plan, referred to as the 2014 Plan, requires that the number of votes cast at the annual meeting in favor of the 2014 Plan exceeds the number of votes cast opposing the 2014 Plan. Pursuant to the New York Stock Exchange's interpretations of its shareholder approval policies, abstentions will have the same effect as votes against the proposal.

#### *Approval of a Non-Binding Advisory Resolution Regarding the Compensation of our Named Executive Officers.*

If a quorum is present, approval requires that the number of votes cast at the annual meeting in favor of the resolution exceeds the number of votes cast opposing the resolution.

### ***What is the effect of abstentions?***

Proxies received but marked **ABSTAIN** will be included in the calculation of the number of shares considered to be present at the meeting for purposes of determining a quorum, but abstentions will not have an effect on the outcome of any proposal, except for the proposal to approve the 2014 Plan. See *How many votes are needed for the proposals to pass?* *Approval of the Watsco, Inc. 2014 Incentive Compensation Plan* for a discussion of the effect of abstentions on the proposal to approve the 2014 Plan.

### ***What are broker non-votes and what effect do they have on the proposals?***

Broker non-votes occur when a broker, bank, or other nominee holds shares in street name for a beneficial owner, and that nominee does not vote the shares because it (1) has not received voting instructions from the beneficial owner and (2) lacks discretionary voting power to vote those shares with respect to a particular proposal.

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A broker is entitled to vote shares held for a beneficial owner on routine matters without instructions from the beneficial owner of those shares. On the other hand, absent instructions from the beneficial owner of such shares, **a broker is not entitled to vote shares held for a beneficial owner on non-routine matters, which include all of the proposals described in this Proxy Statement.**

If you hold your shares in street name, it is critical that you cast your vote if you want it to count in the election of directors (Proposal 1) and in each other Proposal described in this Proxy Statement. If you hold your shares in street name, and you do not instruct your broker, bank, or other nominee how to vote, then no votes will be cast on your behalf.

If any routine matters are properly brought before the annual meeting, then brokers holding shares in street name may vote those shares in their discretion for any such routine matters.

Broker non-votes are counted for purposes of determining whether or not a quorum exists for the transaction of business, but will not be counted as votes cast for or against any proposal and will have no effect on the voting results for any proposal.

***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 and Restated 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.

The four directors whose terms expire at the 2014 annual meeting of shareholders are Denise Dickins, Steven R. Fedrizzi, Paul F. Manley and Bob L. Moss. Mr. Moss was appointed to the Board in March 2014 to fill the vacancy created by George P. Sape's resignation. Mr. Sape's term as a director was to expire at the 2016 annual meeting of shareholders, and, if elected by our shareholders at the annual meeting, Mr. Moss would serve for a term expiring at our 2016 annual meeting of shareholders.

Upon the recommendation of the Nominating & Strategy Committee, our Board has nominated Denise Dickins, Steven R. Fedrizzi and Paul F. Manley for re-election at the 2014 annual meeting of shareholders, each of whom would serve for a three-year term expiring at the 2017 annual meeting of shareholders, and each has consented to serve if elected. Upon the recommendation of the Nominating & Strategy Committee, our Board has nominated Bob L. Moss for re-election at the 2014 annual meeting of shareholders to serve for a two-year term expiring at the 2016 annual meeting of shareholders, and he has consented to serve if elected. Steven R. Fedrizzi has been nominated as a director to be elected by the holders of Common stock, and Denise Dickins, Paul F. Manley and Bob L. Moss have been nominated as directors to be elected by the holders of Class B common stock.

Holders of our Common stock have previously elected David C. Darnell and Aaron J. Nahmad to serve as directors for terms expiring at the 2016 and 2015 annual meetings of shareholders, respectively. Holders of our Class B common stock have previously elected Cesar L. Alvarez, Barry S. Logan and Albert H. Nahmad to serve as directors for terms expiring at the 2015, 2016 and 2015 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.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE DIRECTOR NOMINEES.**

**Biographies and Qualifications of Nominees and Other Directors**

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*, 73, has served as our Chairman of the Board, President and Chief Executive Officer since December 1972. Mr. Nahmad is the Chair of the Nominating & Strategy Committee. He has more than 40 years of leadership experience as our President and Chief Executive Officer and has broad knowledge of our Company and long-standing experience with the HVAC/R industry.

*Cesar L. Alvarez*, 66, has served as the Co-Chairman of the international law firm Greenberg Traurig, P.A. (Greenberg) since February 2012. Mr. Alvarez previously served as Greenberg's Chief Executive Officer from 1997 until his election as Executive Chairman in January 2010 and as its Executive Chairman from 2010 until his election as Co-Chairman.

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Mr. Alvarez was elected to the Board in 1997 and is a member of the Nominating & Strategy Committee. The Board concluded that Mr. Alvarez should serve as a director because of his management experience as the current Co-Chairman and as former Executive Chairman and 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., Fairholme Funds, Inc., St. Joe Company, Sears Holdings Corporation and Intrexon Corporation.

**David C. Darnell**, 61, has served as the Co-Chief Operating Officer of Bank of America Corporation ( Bank of America ) since September 2011, prior to which Mr. Darnell served as the President of Bank of America's Global Commercial Banking team from July 2005 to September 2011. Mr. Darnell joined Bank of America in 1979 and is now responsible for serving approximately 56 million of the bank's consumers and small businesses with deposit, lending, card, home mortgage, wealth management and related products and services.

Mr. Darnell has served as a member of the Board since 2012. The Board concluded that Mr. Darnell should serve as a director because of his years of executive oversight and senior management experience in the banking industry.

**Dr. Denise Dickins**, 52, is an Associate Professor of Accounting and Auditing at East Carolina University where she has been employed since 2006. From 2002 to 2006, she was an instructor of various accounting courses at Florida Atlantic University. 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 of two other publicly-traded companies, Steiner Leisure Ltd., where she is a member of the governance and nominating committee and is the Chairperson of the audit committee, and Great Lakes Dredge & Dock, where she is the Chairperson of the audit committee. She also served on the board of directors and the audit, compensation and nominating committees of TradeStation Group, Inc. until its sale in June 2011.

**Steven R. Fedrizzi**, 59, co-founded the U.S. Green Building Council ( USGBC ), a non-profit organization dedicated to sustainable building design and construction, and was appointed President and Chief Executive Officer of the USGBC in April 2004. Prior to 2004, Mr. Fedrizzi had a distinguished 25 year career at United Technologies Corporation ( UTC ), where he served as an in-house environmental consultant and in various marketing positions.

Mr. Fedrizzi has served as a member of the Board since 2010. The Board nominated Mr. Fedrizzi as a director because he is a recognized leader in the global sustainability movement and an early promoter of green building methods. His skills and experience strengthen our ongoing commitment of providing consumers with energy efficient and environmentally responsible products.

Mr. Fedrizzi serves on the boards of directors of a number of non-profit organizations.

**Barry S. Logan**, 51, has served as our Senior Vice President since November 2003 and as Secretary since 1997. Mr. Logan served as Vice President of 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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Mr. Logan has served as a member of the Board since 2011. The Board concluded that Mr. Logan should serve as a director because his long tenure with Watsco makes his service on the Board extremely valuable.

**Paul F. Manley**, 77, 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. Additionally, Mr. Manley serves as our lead independent director. The Board nominated Mr. Manley as a director because of his executive oversight and senior management experience as well as his financial expertise in accounting and auditing.

**Bob L. Moss**, 66, is the Chairman and Chief Executive Officer of Moss & Associates LLC, founded in 2004, which is one of the largest general contractors in the Southern United States. 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 previously served as a director of Watsco for 20 years from 1992 to 2012.

Mr. Moss was appointed to the Board in 2014 and is a member of the Audit Committee, Compensation Committee and Nominating & Strategy Committee. The Board nominated Mr. Moss as a director because of his years of executive oversight and senior management experience in the construction industry as well as his prior experience as a director of the Company.

**Aaron J. Nahmad**, 32, has served as our Vice President of Strategy and Innovation since July 2010 and as Director of Global Business Development since 2005. Mr. Nahmad holds a B.A. from the University of Pennsylvania and a M.B.A. from New York University's Leonard N. Stern School of Business. Aaron J. Nahmad is the son of Albert H. Nahmad.

Mr. Nahmad has served as a member of the Board since 2011 and is a member of the Nominating & Strategy Committee. The Board concluded that Mr. Nahmad should serve as a director because of his experience as Vice President of Strategy and Innovation, the Company's development and execution of new technologies and his accomplished educational background in business.

## **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. Our Corporate Governance Guidelines are available on our website at [www.watsco.com](http://www.watsco.com), under the caption "Corporate Governance Guidelines" within the Corporate Governance section. These materials may also be requested in print by writing to our Investor Relations Department at Watsco, Inc., 2665 South Bayshore Drive, Suite 901, Miami, Florida 33133.

### **Codes of Ethics and Conduct**

The Board has adopted codes of ethics and 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,

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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](http://www.watsco.com), under the caption "Codes of Conduct" within the Corporate 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). There were no amendments or waivers from our Code of Conduct for Executives in 2013. Violations under either code of conduct must be reported to the Audit Committee. We will provide a copy of these materials to any person without charge, upon written request to our Investor Relations Department at Watsco, Inc., 2665 South Bayshore Drive, Suite 901, Miami, Florida 33133.

**BOARD OF DIRECTORS**

**Board Leadership Structure**

Albert H. Nahmad, our Chief Executive Officer ( CEO ) and President, 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 Ethics and Conduct" above;

our independent directors meet in regularly scheduled executive sessions led by our lead independent director without our CEO or any other members of 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 Albert H. Nahmad as its Chairman.

In order to mitigate any potential disadvantages of one person serving as both 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. The position of lead independent director is currently held by Paul F. Manley, who also serves as Co-Chairman of the Audit Committee and Chairman of the Compensation Committee.

The lead independent 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 Board 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;

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call meetings of the non-management directors when necessary or appropriate; and

perform such other duties as the Board may from time to time determine.

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 lead independent director and the combined role of CEO and Chairman of the Board.



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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 our 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 its committees. The Board's direct role includes the consideration and understanding of risk in the strategic and operating plans that are presented to the Board by management. Additionally, the Board's 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 and Vice President of Strategy and Innovation ( VPSI ), 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 selects and seeks to retain Board members, evaluates directors and director nominees, and recommends 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 rules of the New York Stock Exchange, referred to as the NYSE . Each non-management director and director nominee satisfies such guidelines. Based on its independence review, the Board affirmatively determined that each of the following directors is independent: Cesar L. Alvarez; David C. Darnell; Denise Dickins; Steven R. Fedrizzi; Paul F. Manley; and Bob L. Moss. 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 Co-Chairman, and in determining that Mr. Darnell was independent, the Board considered the bank-related services provided to us by Bank of America, a bank for which Mr. Darnell serves as Co-Chief Operating Officer. Following such consideration, the Board determined that the services provided by Greenberg and Bank of America did not affect the independence of Mr. Alvarez or Mr. Darnell, respectively. 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](http://www.watsco.com), under the caption Corporate Governance Guidelines within the Corporate Governance section.

### **Board Meetings**

The Board took action by unanimous written consent two times and held seven meetings during 2013. Each of the directors attended 86% or more of the aggregate number of meetings of the Board and the committees on which the director served in 2013. Our non-management directors meet at regularly scheduled executive sessions without management present.

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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 2013 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 2013, Messrs. Manley and Sape and Dr. Dickins were the members of the Audit Committee. Following Mr. Sape's resignation in 2014, the Board appointed Mr. Moss to serve on the Audit Committee. All Audit Committee members are independent, as independence for audit committee members is defined in the applicable NYSE listing standards and rules of the Securities and Exchange Commission, referred to as the SEC. The Audit Committee held five meetings during 2013. All Audit Committee members possess the required level of financial literacy as defined in our 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 and applicable SEC rules and regulations.

The Audit Committee's functions include overseeing the integrity of our financial statements and internal control over financial reporting, 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](http://www.watsco.com), under the caption "Committees" within the Corporate 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, Miami, Florida 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, 2013.

#### *Compensation Committee*

During 2013, Messrs. Manley and Sape were the members of the Compensation Committee. Following Mr. Sape's resignation in 2014, the Board appointed Mr. Moss to serve on the Compensation Committee. All Compensation Committee members are independent as required by applicable listing standards of the NYSE and

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applicable SEC rules. The Compensation Committee held six meetings during 2013. The Compensation Committee determines the compensation of our CEO and VPSI, reviews the compensation of the other executive officers and reads and approves the Compensation Discussion and Analysis included in our proxy statements. It also administers with respect to our executive officers the Amended and Restated 2001 Incentive Compensation Plan (the 2001 Plan ) and our Fourth Amended and Restated 1996 Qualified 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 2013.

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](http://www.watsco.com), under the caption "Committees" within the Corporate 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, Miami, Florida 33133.

### *Nominating & Strategy Committee*

During 2013, Cesar L. Alvarez, Aaron J. Nahmad, Albert H. Nahmad and George P. Sape were the members of the Nominating & Strategy Committee. Following Mr. Sape's resignation in 2014, the Board appointed Mr. Moss to serve on the Nominating & Strategy Committee. We have elected to apply the exemption related to a controlled company provided by the NYSE that allows a company that has more than 50% of the voting power held by an individual (Albert H. Nahmad has a combined voting power of 52.9% 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 independence from management, background and considerations including 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. While the Company's corporate governance guidelines do not prescribe specific diversity standards, as a matter of practice, the Nominating & Strategy Committee 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 recommend director nominees 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 and Restated 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 recommended or nominated by shareholders, the Nominating & Strategy Committee considers relevant educational, business and industry experience and demonstrated character and judgment. The manner in which the Nominating & Strategy Committee evaluates nominees for directors does not differ based on whether any such nominee is recommended by a shareholder. Further information related to the Nominating & Strategy Committee is included in our Corporate Governance Guidelines.

The Nominating & Strategy Committee met one time during 2013.

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We pay each director, who is not a Company employee, a \$1,000 fee for each meeting of the Board attended in person by such director, and we reimburse directors for their expenses in connection with their activities as directors. We do not pay a fee for director attendance at telephonic meetings. Directors who are also employees do not receive any additional compensation for their service on the Board. The Nominating & Strategy Committee reviews directors' remuneration and recommends to the Board any proposed changes to director remuneration. In connection with his role as lead director, Audit Committee Co-Chairperson and Chairman of the Compensation Committee, Mr. Manley received annual fees of \$55,000 in 2013 and was reimbursed for expenses associated with the performance of his duties. Dr. Dickins received an annual fee of \$45,000 for her role as Co-Chairperson of the Audit Committee in 2013 and was reimbursed for expenses associated with the performance of her duties. Our directors are eligible to receive stock options under our 2001 Plan at the discretion of our Compensation Committee. We generally grant 20,000 non-qualified stock options to each of our non-management directors upon appointment to the Board.

The following table sets forth the total compensation received by our non-employee directors for 2013.

Name	Fees Earned or	Option Awards	Total
	Paid in Cash	(\$)	
	(\$)	(1)	(\$)
Cesar L. Alvarez	\$ 4,000		\$ 4,000
David C. Darnell	\$ 3,000		\$ 3,000
Denise Dickins	\$ 49,000		\$ 49,000
Steven R. Fedrizzi	\$ 4,000		\$ 4,000
Paul F. Manley	\$ 59,000		\$ 59,000
George P. Sape	\$ 4,000		\$ 4,000

(1) The following table sets forth the number of stock option awards outstanding for each non-management director as of December 31, 2013.

Name	Outstanding Option Awards
Cesar L. Alvarez	
David C. Darnell	20,000
Denise Dickins	
Steven R. Fedrizzi	
Paul F. Manley	
George P. Sape	

**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 this Proxy Statement. In addition, as set forth in the Audit Committee Charter, the Audit 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 Co-Chairman of Greenberg, which receives customary fees for legal services. During 2013, we paid Greenberg approximately \$80,000 for services performed. We currently anticipate that this arrangement will continue.



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Mr. Darnell, a director, is the Co-Chief Operating Officer of Bank of America, which provides services to us, including as one of the lenders under our syndicated revolving credit agreement, the lessor for our corporate aircraft, cash management services and other bank-related services. During 2013, we paid Bank of America approximately \$3,300,000 for banking services and lease payments. We currently anticipate that these arrangements will continue. For additional information on our revolving credit agreement, 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 Annual Report on Form 10-K for the year ended December 31, 2013.

Aaron J. Nahmad, a director and our Vice President of Strategy and Innovation, is the son of Albert H. Nahmad, our Chairman of the Board, President and CEO. Aaron J. Nahmad receives annual compensation and benefits that are consistent with the compensation and benefits provided to other executive officers with equivalent qualifications, experience and responsibilities. For further information, see the Compensation Discussion and Analysis, compensation tables and narrative discussion thereof contained in this Proxy Statement.

## **Shareholder Agreement**

In 2009, we formed a joint venture with Carrier Corporation, which we refer to as Carrier, and issued 2,985,685 shares of Common stock and 94,784 shares of Class B common stock to Carrier as consideration. Watsco and Carrier entered into a shareholder agreement, referred to as the Shareholder Agreement. In 2012, we formed another joint venture with UTC Canada Corporation, which we refer to as UTC Canada, an affiliate of Carrier, and issued 1,250,000 shares of Common stock as consideration. At that time, we amended and restated the Shareholder Agreement. The Shareholder Agreement defines Carrier, its parent corporation, UTC, and all of UTC's subsidiaries, including Carrier and UTC Canada as the Shareholder Group Members. The Shareholder Agreement applies to all shares beneficially owned by them.

Among other things, the Shareholder Agreement provides that, for as long as Carrier's and UTC Canada's aggregate ownership of our Common stock and Class B common stock exceeds five percent (5%) of the total number of outstanding shares of Common stock and Class B common stock:

at any meeting of our shareholders (or any adjournment or postponement thereof), however called, or in connection with any action by written consent or other action of our shareholders, Carrier and UTC Canada must vote (or cause to be voted) all of the shares of our common stock beneficially owned by them and the Shareholder Group Members in the same proportion as votes cast for, against or abstain by all other holders of our common stock; and

at any meeting of our shareholders (or any adjournment or postponement thereof), however called, or in connection with any action by written consent or other action of our shareholders, pursuant to which holders of any class of our common stock are entitled to vote as a separate class, Carrier and UTC Canada must vote (or cause to be voted) all of the shares of such class of our common stock beneficially owned by them and by Shareh