WATSCO INC
Form 10-Q
November 08, 2011
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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 September 30, 2011

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 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	¨ (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 x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 28,349,772 shares of Common stock ($0.50 par value), excluding treasury shares of 6,322,650 and 4,653,793 shares of Class B common stock ($0.50 par value), excluding treasury shares of 48,263, were outstanding as of November 3, 2011.

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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 September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Revenues	**$ 914,039**	$ 812,787	**$ 2,331,926**	$ 2,187,347
Cost of sales	**694,632**	617,246	**1,764,342**	1,668,133
Gross profit	**219,407**	195,541	**567,584**	519,214
Selling, general and administrative expenses	**145,096**	131,548	**401,034**	375,437
Operating income	**74,311**	63,993	**166,550**	143,777
Interest expense, net	**1,352**	869	**3,171**	2,660
Income before income taxes	**72,959**	63,124	**163,379**	141,117
Income taxes	**21,141**	19,606	**48,167**	43,917
Net income	**51,818**	43,518	**115,212**	97,200
Less: net income attributable to noncontrolling interest	**18,271**	12,081	**38,142**	26,885
Net income attributable to Watsco, Inc.	**$ 33,547**	$ 31,437	**$ 77,070**	$ 70,315
Earnings per share for Common and Class B common stock:				
Basic	**$ 1.02**	$ 0.97	**$ 2.35**	$ 2.17
Diluted	**$ 1.02**	$ 0.97	**$ 2.34**	$ 2.16

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, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 21,022**	$ 126,498
Accounts receivable, net	**404,748**	305,088
Inventories	**540,456**	391,925
Other current assets	**27,489**	14,493
Total current assets	**993,715**	838,004
Property and equipment, net	**37,323**	31,221
Goodwill	**318,406**	303,703
Intangible assets, net	**76,007**	56,627
Other assets	**6,299**	7,672
	$ 1,431,750	$ 1,237,227
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term obligations	**$ 30**	$ 72
Borrowings under revolving credit agreements (Note 6)	**115,000**	
Accounts payable	**171,402**	182,185
Accrued expenses and other current liabilities	**96,643**	83,748
Total current liabilities	**383,075**	266,005
Long-term obligations:		
Borrowings under revolving credit agreements (Note 6)		10,000
Other long-term obligations, net of current portion	**7**	16
Total long-term obligations	**7**	10,016
Deferred income taxes and other liabilities	**37,040**	32,310
Commitments and contingencies (Note 9)		
Watsco, Inc. shareholders equity:		
Common stock, $0.50 par value	**17,314**	17,223
Class B common stock, $0.50 par value	**2,353**	2,187
Preferred stock, $0.50 par value		
Paid-in capital	**489,963**	472,883
Accumulated other comprehensive loss, net of tax	**(392)**	(593)
Retained earnings	**409,770**	387,186
Treasury stock, at cost	**(114,425)**	(114,425)
Total Watsco, Inc. shareholders equity	**804,583**	764,461

Noncontrolling interest	**207,045**	164,435
Total shareholders equity	**1,011,628**	928,896
	$ 1,431,750	$ 1,237,227

See accompanying notes to condensed consolidated unaudited financial statements.

WATSCO, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF CASH FLOWS

Nine Months Ended September 30, 2011 and 2010

(In thousands)

	2011	2010
Cash flows from operating activities:		
Net income	$ 115,212	$ 97,200
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	8,549	7,670
Share-based compensation	4,658	3,799
Excess tax benefits from share-based compensation	(724)	(2,229)
Provision for doubtful accounts	1,115	1,931
Loss (gain) on sale of property and equipment	409	(421)
Deferred income tax provision	3,333	3,077
Non-cash contribution for 401(k) plans	1,718	489
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(62,539)	(73,031)
Inventories	(96,620)	(43,396)
Accounts payable and other liabilities	(26,805)	100,796
Other, net	(7,010)	810
Net cash (used in) provided by operating activities	(58,704)	96,695
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(44,695)	(3,824)
Capital expenditures	(9,180)	(5,540)
Proceeds from sale of property and equipment	422	2,080
Net cash used in investing activities	(53,453)	(7,284)
Cash flows from financing activities:		
Net proceeds under revolving credit agreements	105,000	9,337
Net proceeds from issuances of common stock	3,356	3,754
Excess tax benefits from share-based compensation	724	2,229
Costs related to amendment of revolving credit agreement	(38)	
Net repayments of other long-term obligations	(51)	(124)
Distributions to noncontrolling interest	(15,824)	(13,644)
Return of capital contribution to noncontrolling interest	(32,000)	
Dividends on Common and Class B common stock	(54,486)	(49,185)
Net cash provided by (used in) financing activities	6,681	(47,633)
Net (decrease) increase in cash and cash equivalents	(105,476)	41,778
Cash and cash equivalents at beginning of period	126,498	58,093
Cash and cash equivalents at end of period	$ 21,022	$ 99,871
Supplemental cash flow information:		
Net assets of locations contributed to joint venture	$ 14,769	

See accompanying notes to condensed consolidated unaudited financial statements.

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WATSCO, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

September 30, 2011

(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 September 30, 2011 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 2010 Annual Report on Form 10-K.

The condensed consolidated unaudited financial statements contained in this report include the accounts of Watsco and all of its wholly-owned subsidiaries and include the accounts of two joint ventures in which Watsco maintains a 60% controlling interest (see Notes 7 and 8). All significant intercompany balances and transactions have been eliminated.

The results of operations for the quarter and nine months ended September 30, 2011 are not necessarily indicative of the results to be expected for the year ending December 31, 2011. Sales of residential central air conditioners, heating equipment and parts and supplies are seasonal. Furthermore, results of operations can be impacted favorably or unfavorably based on weather patterns during the summer and winter selling seasons. Demand related to the residential central air conditioning replacement market is typically highest in the second and third quarters, and demand for heating equipment is usually highest in the fourth quarter. Demand related to the new construction sectors throughout most of the markets is fairly consistent during the year, except for dependence on housing completions and related weather and economic conditions.

Use of Estimates

The preparation of condensed consolidated unaudited financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated unaudited financial statements and the reported amounts of revenues and expenses for the reporting period. Significant estimates include valuation reserves for accounts receivable, 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

Revenue Arrangements with Multiple Deliverables

On January 1, 2011, we adopted accounting guidance issued by the Financial Accounting Standards Board (FASB) that amended the criteria for allocating a contract s consideration to individual services or products in multiple deliverable arrangements. The adoption of this guidance did not have an impact on our condensed consolidated unaudited financial statements.

Fair Value Measurement Disclosures

On January 1, 2011, we adopted accounting guidance issued by the FASB that required new disclosures about significant transfers between Level 1 and 2 fair value measurements, including the reason for such transfers, and also required information about purchases, sales, issuances and settlements of Level 3 fair value measurements. The adoption of this guidance did not have a significant impact on our condensed consolidated unaudited financial statements.

Credit Quality of Financing Receivables and the Allowance for Credit Losses

On January 1, 2011, we adopted accounting guidance issued by the FASB that required new disclosures about the credit quality of financing receivables and their allowance for credit losses. The adoption of this guidance did not have an impact on our condensed consolidated unaudited financial statements because we do not have any financing receivables.

Goodwill Impairment Testing

On January 1, 2011, we adopted accounting guidance issued by the Emerging Issues Task Force (EITF) of the FASB requiring that Step 2 of the goodwill impairment test be performed in circumstances where a reporting unit has a zero or negative carrying amount for which qualitative factors exist that indicate that goodwill may be impaired. The adoption of this guidance did not have an impact on our condensed consolidated unaudited financial statements.

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Supplementary Pro Forma Information for Business Combinations

On January 1, 2011, we adopted accounting guidance issued by the EITF requiring pro forma financial information for business combinations to be presented as if the business combination occurred at the beginning of the prior annual reporting period when calculating both the current reporting period and the prior reporting period. The adoption of this guidance did not have an impact on our condensed consolidated unaudited financial statements. See Note 7.

Recently Issued Accounting Standards

Presentation of Comprehensive Income

In June 2011, the FASB issued guidance on the presentation of comprehensive income that allows an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of shareholders equity. This guidance will be applied retrospectively and will be effective for our interim and annual reporting periods beginning after December 15, 2011. We will adopt this guidance on January 1, 2012 and expect to add new primary consolidated statements of other comprehensive income which will immediately follow our consolidated statements of income to our filings when applicable.

Goodwill Impairment Testing

In September 2011, the FASB amended the guidance on the annual testing of goodwill for impairment. The amended guidance will allow companies to assess qualitative factors to determine if it is more likely than not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. This guidance is effective for annual and interim impairment tests after December 15, 2011. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

2. EARNINGS PER SHARE

We compute earnings per share 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 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 into Common stock as of the beginning of the fiscal year and adjusts for the dilutive effects of outstanding stock options using the treasury stock method. As of September 30, 2011 and 2010, our outstanding Class B common stock was convertible into 2,853,096 and 2,858,592 shares of our Common stock, respectively.

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

	Quarter Ended September 30, 2011	Quarter Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Basic Earnings per Share:				
Net income attributable to Watsco, Inc. shareholders	**$ 33,547**	$ 31,437	**$ 77,070**	$ 70,315
Less: distributed and undistributed earnings allocated to non-vested (restricted) common stock	**2,295**	1,835	**5,105**	4,182

Earnings allocated to Watsco, Inc. shareholders	**$**	**31,252**	$	29,602	**$**	**71,965**	$	66,133
Weighted-average Common and Class B common shares outstanding for basic earnings per share		**30,694,844**		30,499,889		**30,660,843**		30,442,941

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	Quarter Ended September 30, 2011	Quarter Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Basic earnings per share for Common and Class B common stock	**$ 1.02**	$ 0.97	**$ 2.35**	$ 2.17
Allocation of earnings for Basic:				
Common stock	**$ 28,347**	$ 26,828	**$ 65,268**	$ 59,923
Class B common stock	**2,905**	2,774	**6,697**	6,210
	$ 31,252	$ 29,602	**$ 71,965**	$ 66,133
Diluted Earnings per Share:				
Net income attributable to Watsco, Inc. shareholders	**$ 33,547**	$ 31,437	**$ 77,070**	$ 70,315
Less: distributed and undistributed earnings allocated to non-vested (restricted) common stock	**2,293**	1,833	**5,101**	4,178
Earnings allocated to Watsco, Inc. shareholders	**$ 31,254**	$ 29,604	**$ 71,969**	$ 66,137

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	**30,694,844**	30,499,889	**30,660,843**	30,442,941
Effect of dilutive stock options	**63,688**	101,332	**80,452**	115,792
Weighted-average Common and Class B common shares outstanding for diluted earnings per share	**30,758,532**	30,601,221	**30,741,295**	30,558,733
Diluted earnings per share for Common and Class B common stock	**$ 1.02**	$ 0.97	**$ 2.34**	$ 2.16
Anti-dilutive stock options not included in above	**132,750**	199,826	**22,322**	144,756

3. DERIVATIVE FINANCIAL INSTRUMENT

Periodically, we enter into interest rate swap agreements to reduce our exposure to interest rate 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 September 30, 2011 and December 31, 2010, we had one interest rate swap agreement 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%. For the quarter and nine months ended September 30, 2011 and 2010, 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 $42 and $399 at September 30, 2011 and December 31, 2010, respectively, and is included, net of accrued interest, in accrued expenses and other current liabilities in the condensed consolidated balance sheets. See Note 4. At September 30, 2011 and December 31, 2010, $17, net of deferred tax benefits of $10 and $238, net of deferred tax benefits of $146, respectively, was included in accumulated other comprehensive loss (OCL) associated with the cash flow hedge.

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The net change in OCL for the quarters and nine months ended September 30, 2011 and 2010, reflected the reclassification of $77, net of income tax benefit of $48, $76, net of income tax benefit of $46, $228, net of income tax benefit of $139 and $225, net of income tax benefit of $138, 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 $20 in unrealized losses on the derivative instrument accumulated in OCL are expected to be reclassified to earnings during the next month using the current 30-day LIBOR-based receive rate (0.21% at September 30, 2011). See Note 5.

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 tables present our assets and liabilities that are measured at fair value on a recurring basis and the levels of inputs used to measure fair value:

Description	Fair Value at September 30, 2011	Fair Value Measurements at September 30, 2011 Using		
		Level 1	**Level 2**	**Level 3**
Assets:				
Available-for-sale securities	**$ 124**	**$ 124**		
Liabilities:				
Derivative financial instrument	**$ 42**		**$ 42**	

Description	Fair Value at December 31, 2010	Fair Value Measurements at December 31, 2010 Using		
		Level 1	**Level 2**	**Level 3**
Assets:				
Available-for-sale securities	$ 157	$ 157		
Liabilities:				
Derivative financial instrument	$ 399		$ 399	

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. The fair value of available-for-sale securities is included in other assets in our condensed consolidated balance sheets.

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. The fair value of the derivative financial instrument is included, net of accrued interest, in accrued expenses and other current liabilities in our condensed consolidated balance sheets. See Note 3.

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5. COMPREHENSIVE INCOME

Comprehensive income consists of net income, changes in the unrealized losses on available-for-sale securities and the effective portion of a cash flow hedge as discussed in Note 3. The components of comprehensive income are as follows:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Net income	**$ 51,818**	$ 43,518	**$ 115,212**	$ 97,200
Changes in unrealized losses on derivative instrument	**77**	52	**221**	120
Changes in unrealized losses on available-for-sale securities	**(23)**	17	**(20)**	13
Comprehensive income	**51,872**	43,587	**115,413**	97,333
Less: comprehensive income attributable to noncontrolling interest	**18,271**	12,081	**38,142**	26,885
Comprehensive income attributable to Watsco, Inc.	**$ 33,601**	$ 31,506	**$ 77,271**	$ 70,448

6. REVOLVING CREDIT AGREEMENTS

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. At September 30, 2011 and December 31, 2010, $75,000 and $10,000 were outstanding under this revolving credit agreement, respectively. The credit agreement matures in August 2012 and, accordingly, borrowings outstanding under the credit agreement are classified as current liabilities in our condensed consolidated unaudited balance sheet at September 30, 2011. We have obtained indicative term sheets at competitive rates and terms and intend to refinance this bank-syndicated, unsecured revolving credit agreement prior to its maturity however, there is no assurance that we will be able to refinance with the same terms and conditions.

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 September 30, 2011.

Carrier Enterprise Revolving Credit Agreement

Carrier Enterprise, LLC (Carrier Enterprise), in which we have a 60% controlling interest and Carrier Corporation (Carrier) has a 40% noncontrolling interest, maintains a separate bank-syndicated, secured revolving credit agreement that provides for borrowings of up to $125,000. Effective July 1, 2011, Carrier Enterprise s standard payment terms with Carrier for inventory purchases accelerated. As a result of this change, on July 26, 2011 we amended the revolving credit agreement to increase available borrowings to $125,000 from $75,000. All other terms and conditions of the credit facility remained the same. 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. At September 30, 2011, $40,000 was outstanding under this revolving credit agreement. No borrowings were outstanding under this credit facility at December 31, 2010. The credit agreement matures in July 2012 and, accordingly, borrowings outstanding are classified as current liabilities in our condensed consolidated unaudited balance sheet at September 30, 2011. We have obtained indicative term sheets at competitive rates and terms and intend to refinance, on an unsecured basis, Carrier Enterprise s bank-syndicated revolving credit agreement prior to its maturity however, there is no assurance that we will be able to refinance with the same terms and conditions.

The revolving credit agreement contains customary affirmative and negative covenants and representations 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 and cash distributions in addition to other restrictions. We believe Carrier Enterprise was in compliance with all covenants and financial ratios at September 30, 2011.

7. ACQUISITIONS

On April 29, 2011, we completed the formation of a second joint venture with Carrier to distribute Carrier, Bryant and Payne branded residential, light-commercial and applied-commercial HVAC products and related parts and supplies in the northeast United States. Carrier contributed 28 of its company-operated northeastern locations to the newly formed joint venture, Carrier Enterprise Northeast, LLC (Carrier Enterprise Northeast), and we contributed 14 of our northeast locations. We purchased a 60% controlling interest in the joint venture for a fair value of $49,229. Total consideration paid by us for our 60% controlling interest in Carrier Enterprise Northeast was composed of cash consideration of $35,700 and our contribution of 14 northeastern locations valued at $14,769. The final purchase price was subject to $1,240 of net working capital adjustments pursuant to the related purchase and contribution agreement.

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The purchase price resulted in the recognition of $32,957 in goodwill and intangibles. The fair value of the identified intangible assets was $20,600 and consisted of $13,400 in trade names and distribution rights and $7,200 in customer relationships to be amortized over a 12 year period. The tax basis of the acquired goodwill recognized will be deductible for income tax purposes over 15 years.

The purchase price allocation is based upon a purchase price of $49,229, which represents the fair value of our 60% controlling interest in Carrier Enterprise Northeast. 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 Northeast based on the respective fair values as of April 29, 2011:

Cash	**$ 5**
Accounts receivable	**24,300**
Inventories	**39,003**
Other current assets	**773**
Property and equipment	**4,402**
Goodwill	**12,357**
Intangibles	**20,600**
Other assets	**202**
Accounts payable	**(17,474)**
Accrued expenses	**(5,420)**
Noncontrolling interest	**(29,519)**
Total purchase price	**$ 49,229**

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 14 locations to the joint venture, $7,708 representing 40% of the carrying value of the contributed locations was attributed to the noncontrolling interest and $7,061 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.

The unaudited pro forma financial information combining our results of operations with the operations of Carrier Enterprise Northeast as if the joint venture had been consummated on January 1, 2010 is as follows:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Revenues	**$ 914,039**	$ 874,899	**$ 2,384,314**	$ 2,344,465
Net income	**51,818**	46,182	**114,702**	101,972
Less: net income attributable to noncontrolling interest	**18,271**	13,958	**38,180**	30,326
Net income attributable to Watsco, Inc.	**$ 33,547**	$ 32,224	**$ 76,522**	$ 71,646
Diluted earnings per share for Common and Class B common stock	**$ 1.02**	$ 0.99	**$ 2.32**	$ 2.21

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 Northeast s income 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 Northeast, 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 acquired our 60% controlling interest in and operated Carrier Enterprise Northeast as of the beginning of the periods presented.

On July 29, 2011, we acquired a 60% controlling interest in Carrier s HVAC/R distribution operations in Mexico (Carrier Enterprise Mexico) for cash consideration of $9,000. Carrier s company-operated Mexico distribution network had revenues of approximately $75,000 in 2010 and operates from seven locations with 90 employees servicing its customer base. Products sold include Carrier s complete product line of HVAC equipment and commercial refrigeration products and supplies servicing both the residential and applied commercial markets.

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In April 2010, one of our wholly-owned subsidiaries acquired certain assets and assumed certain liabilities of a wholesale distributor of air conditioning and heating products operating from two locations in Tennessee for cash consideration of $2,406.

The results of operations of these acquired locations have been included in the condensed consolidated unaudited financial statements from the date of acquisition. The pro forma effect of the July 2011 and April 2010 acquisitions were not deemed significant to the condensed consolidated unaudited financial statements.

8. SHAREHOLDERS EQUITY

Dividends Declared

Cash dividends of $0.57 per share, $0.52 per share, $1.66 per share and $1.52 per share of Common and Class B common stock were paid during the quarters and nine months ended September 30, 2011 and 2010, respectively. On October 3, 2011, the Board of Directors declared a regular quarterly cash dividend of $0.57 per share of Common and Class B common stock that was paid on October 31, 2011 to shareholders of record as of October 14, 2011. On October 19, 2011, the Board of Directors approved an increase in the quarterly cash dividend to $0.62 per share from $0.57 per share. The increase will be reflected in our next regular dividend payment in January 2012.

Non-Vested (Restricted)