

## Risk Factors Comparison 2025-02-28 to 2024-02-23 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text **Moved Text Section**

**Cybersecurity Risks In addition to the disruptions that may occur from interruptions in our information technology systems, cybersecurity threats and sophisticated and targeted cyberattacks pose a risk to our information technology systems. Cyberattacks may be further enhanced in frequency or effectiveness through threat actors' use of artificial intelligence. We have established security policies, processes and defenses designed to help identify and protect against intentional and unintentional misappropriation** or corruption of our information technology systems and information and disruption of our operations. Despite these efforts, our information technology systems may be damaged, disrupted or shut down due to attacks by hackers and other persons obtaining unauthorized access, malicious software, ransomware, computer viruses, undetected intrusion, hardware failures or other events, and in these circumstances our disaster recovery plans may be ineffective or inadequate. These breaches or intrusions could lead to business interruption, exposure of proprietary or confidential information, data corruption, damage to our reputation, exposure to legal and regulatory proceedings and other costs. Such events could have a material adverse impact on our financial condition, results of operations and cash flows. In addition, we could be adversely affected if any of our significant customers or suppliers experiences any similar events that disrupt their business operations or damage their reputation. Failure to successfully manage the operational challenges and risks associated with, or resulting from, upgrades and conversions to newer versions of our information technology systems core to our operations could adversely affect our results of operations, cash flows, and liquidity. We maintain change management processes, monitoring practices, and protections of our information technology to reduce these risks and test our systems on an ongoing basis for potential threats. The Audit Committee is briefed on information security matters at least once a year. We carry cybersecurity insurance to help mitigate ~~the~~ financial exposure and related notification procedures in the event of intentional intrusion. There can be no assurance, however, that our efforts will prevent the risk of a security breach of our databases or systems that could adversely affect our business. Foreign Currency Exchange Rate Fluctuations The functional currency of our operations in Canada is the Canadian dollar, and the functional currency of our operations in Mexico is the U. S. dollar because the majority of our Mexican transactions are denominated in U. S. dollars. Foreign currency exchange rates and fluctuations may have an impact on transactions denominated in Canadian dollars and Mexican Pesos, and, therefore, could adversely affect our financial performance. Although we use foreign currency forward contracts to mitigate the impact of currency exchange rate movements, we do not currently hold any derivative contracts that hedge our foreign currency translational exposure. Seasonality Sales of residential central air conditioners, heating equipment, and parts and supplies are seasonal, resulting in fluctuations in our revenue from quarter to quarter. Furthermore, profitability can be impacted favorably or unfavorably based on the severity or mildness of weather patterns during Summer or Winter selling seasons. Demand related to the residential central air conditioning replacement market is typically highest in the second and third quarters, and demand for heating equipment is usually highest in the first and fourth quarters. Demand related to the new construction sectors throughout most of the markets is fairly evenly distributed throughout the year and depends largely on housing completions and related weather and economic conditions. Dependence on Key Personnel Much of our success has depended on the skills and experience of senior management personnel. The loss of any of our executive officers or other key senior management personnel could harm our business. We must continuously recruit, retain, and motivate management and other employees to both maintain our current business and to execute our strategic initiatives. Our success has also depended on the contributions and abilities of our store employees upon whom we rely on to give customers a superior in- store experience. Accordingly, our performance depends on our ability to recruit and retain high quality employees to work in and manage our stores. If we are unable to adequately recruit, retain, and motivate employees our projected growth and expansion, and our business and financial performance may be adversely affected. Decline in Economic Conditions We rely predominantly on the credit markets and, to a lesser extent, on the capital markets to meet our financial commitments and short- term liquidity needs if internal funds are not available from our operations. Access to funds under our line of credit is dependent on the ability of the syndicate banks to meet their respective funding commitments. Disruptions in the credit and **15** capital markets could adversely affect our ability to draw on our revolving credit agreement and may also adversely affect the determination of interest rates. Additionally, disruptions in the credit and capital markets could also result in increased borrowing costs and / or reduced borrowing capacity under our revolving credit agreement. Any long- term disruption could require us to take measures to conserve cash until the markets stabilize, or until alternative credit arrangements or other funding for our business needs can be arranged. Such measures could include reducing or eliminating dividend payments, deferring capital expenditures, and reducing or eliminating other discretionary uses of cash. ~~15~~ A decline in economic conditions and lack of availability of business and consumer credit could have an adverse effect on our business and results of operations. Any capital or credit market disruption could cause broader economic downturns, which may lead to reduced demand for our products and an increased incidence of customers' inability to pay their accounts. Further, bankruptcies or similar events by customers may cause us to incur increased levels of bad debt expense. Also, our suppliers may be negatively impacted by deteriorating economic conditions, causing disruption or delay of product availability. These events would adversely impact our results of operations, cash flows, and financial position. Additionally, if the conditions of the capital and credit markets adversely affect the financial institutions that have committed to extend us credit, they may be unable to fund borrowings under such commitments, which could have an adverse impact on our financial condition, liquidity, and our ability to borrow funds for working capital, acquisitions, capital expenditures, and other corporate purposes. International Risk Our international sales and operations, as well as sourcing of products from suppliers

with international operations, are subject to various risks associated with changes in local laws, regulations, and policies, including those related to tariffs, trade restrictions and trade agreements, investments, taxation, capital controls, employment regulations, different liability standards, and limitations on the repatriation of funds due to foreign currency controls. Our international sales and operations, as well as sourcing of products from suppliers with international operations, are also sensitive to changes in foreign national priorities, including government budgets, as well as political and economic instability. In addition, post- pandemic delays and closures in China may disrupt the operations of certain of our suppliers, which could negatively impact our business. Unfavorable changes in any of the foregoing could adversely affect our results of operations or could cause a disruption in our supply chain for products sourced internationally. Additionally, failure to comply with the United States Foreign Corrupt Practices Act could subject us to, among other things, penalties and legal expenses that could harm our reputation and have a material adverse effect on our business, financial condition, and results of operations. Goodwill, Intangibles and Long- Lived Assets At December 31, ~~2023~~ **2024**, goodwill, intangibles, and long- lived assets represented approximately ~~36~~ **31** % of our total assets. The recoverability of goodwill, indefinite lived intangibles, and long- lived assets is evaluated at least annually and when events or changes in circumstances indicate that the carrying amounts may not be recoverable. The identification and measurement of goodwill impairment involves the estimation of the fair value of our reporting unit and contains uncertainty because management must use judgment in determining appropriate assumptions to be used in the measurement of fair value. The estimates of fair value of our reporting unit, indefinite lived intangibles, and long- lived assets are based on the best information available as of the date of the assessment and ~~incorporates~~ **incorporate** management' s assumptions about expected future cash flows and contemplates other valuation techniques. Future cash flows can be affected by changes in the industry, a declining economic environment, or market conditions. We cannot assure you that we will not suffer material impairments to goodwill, intangibles, or long- lived assets in the future. Risks Related to Loss Contingencies We carry general liability, comprehensive property damage, workers' compensation, health benefits, cybersecurity, and other insurance coverage that management considers adequate for the protection of its assets and operations at reasonable premiums. There can be no assurance that the coverage limits and related premiums of such policies will be adequate to cover claims, losses and expenses for lawsuits which have been, or may be, brought against us. A loss in excess of insurance coverage could have a material adverse effect on our financial position and / or profitability. Certain self- insurance risks for casualty insurance programs and health benefits are retained and reserves are established based on claims filed and estimates of claims incurred but not yet reported. Assurance cannot be provided that actual claims will not exceed present estimates. Exposure to catastrophic losses has been limited by maintaining excess and aggregate liability coverage and implementing stop- loss control programs. However, more frequent catastrophic weather events may impact the availability and cost of property and casualty insurance. **16** Risks Related to Natural Disasters, Epidemics, or Other Unexpected Events The occurrence of one or more natural disasters, including those linked to climate change, power outages, or other unexpected events, including hurricanes, fires, earthquakes, volcanic eruptions, tsunamis, floods and other forms of severe weather, health epidemics, pandemics or other contagious outbreaks, conflicts, wars or terrorist acts, in the U. S. or in other countries in which we or our suppliers or customers operate could adversely affect our operations and financial performance. Natural disasters, power outages or other unexpected events could damage or close one or more of our locations or disrupt our operations temporarily or long- term, such as by causing business interruptions or by affecting the availability **of** products we sell. Existing insurance arrangements may not cover all of the costs or lost cash flows that may arise from such events. The occurrence of any of these events could also increase our insurance and other operating costs or impact our sales. Moreover, litigation related to sustainability practices could result in potential operating expenses arising from fines, settlements, and legal costs, as well as reputational impacts. ~~16~~ Risks Related to our Common Stock Class B Common Stock and Insider Ownership As of December 31, ~~2023~~ **2024**, our directors and executive officers and entities affiliated with them owned: (i) Common stock representing **less than** 1 % of the outstanding shares of Common stock and (ii) Class B common stock representing **89-90** % of the outstanding shares of Class B common stock. These interests represent 55 % of the aggregate combined voting power (including 53 % beneficially owned by Albert H. Nahmad, Chairman and Chief Executive Officer (" CEO "), Aaron J. Nahmad, President (the son of our Chairman and CEO), and Valerie Schimel, Director (the daughter of our Chairman and CEO), through shares owned by them and shares held by affiliated limited partnerships, various family trusts, and a charitable foundation. Accordingly, our directors and executive officers collectively have the voting power to elect six members of our nine- person Board of Directors. Our Class B common stock is substantially identical to our Common stock except: (i) Common stock is entitled to one vote on all matters submitted to a vote of our shareholders, and each share of Class B common stock is entitled to ten votes; (ii) shareholders of Common stock are entitled to elect 25 % of our Board of Directors (rounded up to the nearest whole number), and Class B shareholders are entitled to elect the balance of the Board of Directors; (iii) cash dividends may be paid on Common stock without paying a cash dividend on Class B common stock, and no cash dividend may be paid on Class B common stock unless at least an equal cash dividend is paid on Common stock; and (iv) Class B common stock is convertible at any time into Common stock on a one- for- one basis at the option of the shareholder. Future Sales We are not restricted from issuing additional shares of our Common stock or Class B common stock (which we refer to together as common stock), including securities that are convertible into or exchangeable for, or that represent the right to receive, our common stock or any substantially similar securities in the future. We may issue shares of our common stock or other securities in one or more registered or unregistered offerings, and we may also issue our securities in connection with investments or acquisitions. **On March 29, 2024, we implemented the Watsco, Inc. Dividend Reinvestment Plan (" DRIP ") under which existing shareholders may, in accordance with the DRIP, acquire shares of common stock, as applicable, by reinvesting all or a portion of the cash dividends paid on such shareholders' shares of common stock.** The number of shares of our common stock issued in connection with any of the foregoing may result in dilution to holders of our common stock. Volatility The market price of our common stock **has been and** may **continue to** be highly volatile and could be subject to wide fluctuations.

Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of shares of our common stock despite our operating performance. The trading price of our common stock may be adversely affected due to many factors, most of which we cannot predict or control, such as the following: • fluctuations in our operating results; • a decision by the Board of Directors to reduce or eliminate cash dividends on our common stock; • changes in recommendations or earnings estimates by securities analysts; • general market conditions in our industry or in the economy as a whole; and • political instability, natural disasters, war and / or events of terrorism. **17** Payment of Dividends The amount of any future dividends that we will pay, if any, will depend upon a number of factors. Future dividends will be declared and paid at the sole discretion of the Board of Directors and will depend upon such factors as cash flow generated by operations, profitability, financial condition, cash requirements, **potential dilution related to our dividend reinvestment plan**, prospects, and other factors deemed relevant by our Board of Directors. The right of our Board of Directors to declare dividends, however, is subject to the availability of sufficient funds under Florida law to pay dividends. In addition, our ability to pay dividends depends on certain restrictions in our credit agreement. Securities Analyst Research and Reports The trading markets for our common stock rely in part on the research and reports that industry or financial analysts publish about us or our business or industry. If one or more of the analysts who cover us downgrade our stock or our industry, or the stock of Carrier or any of our competitors, publish negative or unfavorable research about our business, the price of our stock could decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, we could lose visibility in the market, which in turn could cause our stock price or trading volume to decline. **17**

**ITEM 1B. UNRESOLVED STAFF COMMENTS** None. **ITEM 1C. CYBERSECURITY Risk Management and Strategy** We have established security practices and safeguards designed to help identify and protect against intentional and unintentional misappropriation or corruption of our information technology systems, data, and operational continuity. We regularly conduct risk assessments to identify potential cybersecurity threats, which include evaluating the likelihood and potential impact of these threats, identifying system and network vulnerabilities, and assessing the effectiveness of our existing controls. As part of our overall cybersecurity program, we engage specialized third-party vendors for certain cybersecurity functions including, but not limited to, incident response, penetration testing, and security operations center monitoring of our information technology environment. Identified risks are documented and communicated to the relevant stakeholders. Upon identification and assessment of risks, we develop and implement what we believe are appropriate measures to manage these risks, which may involve enhancing security controls, implementing new technologies, training employees, or changing business processes. We maintain change management processes, monitoring practices, and data protection measures to mitigate cybersecurity risks and continuously test our systems for potential threats. Such processes and practices to assess, identify, and manage cybersecurity incidents are integrated into our overall enterprise risk assessment process. Governance A dedicated management team at our corporate headquarters, which is led by our Director of Data Security (“DDS”) and composed of the Chief Technology Officer (“CTO”) and representatives from risk management, legal, internal audit, and finance departments, is responsible for assessing and managing our cybersecurity risks and data protection practices. The Audit Committee oversees the measures taken by this management team to monitor material risks associated with cybersecurity threats, a role crucial to maintaining a robust and effective cybersecurity risk management approach. The DDS and CTO provide formal briefings to the Audit Committee on various cybersecurity matters, including risk assessments, mitigation strategies, areas of emerging risks, and other areas of importance at least once a year, with the Board of Directors receiving updates periodically. Regular discussions on enterprise risks are held between the Audit Committee, Board of Directors, and senior management. Our DDS has more than 20 years of expertise in the information technology sector, with 10 years specifically dedicated to cybersecurity. This experience has fostered a thorough comprehension of cyber threat landscapes, defense strategies, and security technologies. **ITEM 2. PROPERTIES** Our main properties include warehousing and distribution facilities, trucks, and administrative office space. **Warehousing and Distribution Facilities** At December 31, 2023, we operated 690 warehousing and distribution facilities across 42 U. S. states, Canada, Mexico, and Puerto Rico, having an aggregate of approximately 16.4 million square feet of space, of which approximately 16.2 million square feet is leased. The majority of these leases are for terms of three to five years. We believe that our facilities are sufficient to meet our present operating needs. **Trucks** At December 31, 2023, we operated 821 ground transport vehicles, including delivery and pick-up trucks, vans, and tractors. Of this number, 596 trucks were leased and the others were owned. We believe that the present size of our truck fleet is adequate to support our operations. **Administrative Facilities** Senior management and support staff are located at various administrative offices in approximately 0.3 million square feet of space. **18**