

POOL CORP  
Form 10-Q  
October 30, 2015

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
 1934

For the quarterly period ended September 30, 2015

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: 0-26640

POOL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

36-3943363  
(I.R.S. Employer  
Identification No.)

109 Northpark Boulevard,  
Covington, Louisiana  
(Address of principal executive offices)

70433-5001  
(Zip Code)

985-892-5521

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Edgar Filing: POOL CORP - Form 10-Q

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

As of October 23, 2015, there were 42,600,714 shares of common stock outstanding.

---

POOL CORPORATION  
Form 10-Q  
For the Quarter Ended September 30, 2015

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Income</u>	<u>1</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>2</u>
<u>Consolidated Balance Sheets</u>	<u>3</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>4</u>
<u>Notes to Consolidated Financial Statements</u>	<u>5</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>11</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>25</u>
<u>Item 4. Controls and Procedures</u>	<u>25</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>26</u>
<u>Item 1A. Risk Factors</u>	<u>26</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>26</u>
<u>Item 6. Exhibits</u>	<u>26</u>
<u>SIGNATURE</u>	<u>27</u>
<u>INDEX TO EXHIBITS</u>	<u>28</u>

---

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## POOL CORPORATION

## Consolidated Statements of Income

(Unaudited)

(In thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net sales	\$645,779	\$615,536	\$1,948,064	\$1,870,120
Cost of sales	461,491	439,292	1,390,715	1,332,800
Gross profit	184,288	176,244	557,349	537,320
Selling and administrative expenses	118,776	117,787	347,106	347,718
Operating income	65,512	58,457	210,243	189,602
Interest expense, net	2,473	1,864	6,368	5,691
Income before income taxes and equity earnings	63,039	56,593	203,875	183,911
Provision for income taxes	23,704	21,711	78,489	71,111
Equity earnings in unconsolidated investments	68	76	259	209
Net income	39,403	34,958	125,645	113,009
Net (income) loss attributable to noncontrolling interest	44	(122)	) 144	(122)
Net income attributable to Pool Corporation	\$39,447	\$34,836	\$125,789	\$112,887
Earnings per share:				
Basic	\$0.92	\$0.80	\$2.91	\$2.53
Diluted	\$0.90	\$0.78	\$2.83	\$2.47
Weighted average shares outstanding:				
Basic	42,826	43,756	43,266	44,563
Diluted	43,939	44,864	44,407	45,730
Cash dividends declared per common share	\$0.26	\$0.22	\$0.74	\$0.63

The accompanying Notes are an integral part of the Consolidated Financial Statements.

## POOL CORPORATION

## Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands)

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Net income	\$39,403	\$34,958	\$125,645	\$113,009
Other comprehensive loss:				
Foreign currency translation adjustments	(2,792 )	(2,216 )	(8,482 )	(2,671 )
Change in unrealized gains and losses on interest rate swaps, net of tax of \$525, \$(399), \$1,002 and \$(260)	(822 )	625	(1,568 )	407
Total other comprehensive loss	(3,614 )	(1,591 )	(10,050 )	(2,264 )
Comprehensive income	35,789	33,367	115,595	110,745
Comprehensive (income) loss attributable to noncontrolling interest	310	(13 )	656	(13 )
Comprehensive income attributable to Pool Corporation	\$36,099	\$33,354	\$116,251	\$110,732

The accompanying Notes are an integral part of the Consolidated Financial Statements.

## POOL CORPORATION

## Consolidated Balance Sheets

(In thousands, except share data)

	September 30, 2015 (Unaudited)	September 30, 2014 (Unaudited)	December 31, 2014 <sup>(1)</sup>
Assets			
Current assets:			
Cash and cash equivalents	\$ 29,504	\$ 14,455	\$ 14,830
Receivables, net	70,399	69,847	51,014
Receivables pledged under receivables facility	149,375	137,318	89,631
Product inventories, net	412,587	414,331	466,962
Prepaid expenses and other current assets	11,062	10,561	11,659
Deferred income taxes	3,256	5,378	3,117
Total current assets	676,183	651,890	637,213
Property and equipment, net	66,296	57,260	56,475
Goodwill	172,150	174,607	173,924
Other intangible assets, net	11,393	12,433	11,995
Equity interest investments	1,196	1,289	1,244
Other assets, net	15,178	11,757	12,086
Total assets	\$ 942,396	\$ 909,236	\$ 892,937
Liabilities, redeemable noncontrolling interest and stockholders' equity			
Current liabilities:			
Accounts payable	\$ 170,582	\$ 154,511	\$ 236,294
Accrued expenses and other current liabilities	77,298	75,222	54,085
Short-term borrowings and current portion of long-term debt and other long-term liabilities	1,799	2,618	1,529
Total current liabilities	249,679	232,351	291,908
Deferred income taxes	22,755	19,934	23,504
Long-term debt	393,067	391,120	319,309
Other long-term liabilities	13,216	10,027	10,751
Total liabilities	678,717	653,432	645,472
Redeemable noncontrolling interest	2,457	3,144	3,113
Stockholders' equity:			
Common stock, \$0.001 par value; 100,000,000 shares authorized; 42,620,194, 43,352,818 and 43,511,093 shares issued and outstanding at September 30, 2015, September 30, 2014 and December 31, 2014, respectively	43	43	44
Additional paid-in capital	361,553	329,588	338,620
Retained deficit	(87,174	) (77,619	) (90,650
Accumulated other comprehensive income (loss)	(13,200	) 648	(3,662
Total stockholders' equity	261,222	252,660	244,352

Edgar Filing: POOL CORP - Form 10-Q

Total liabilities, redeemable noncontrolling interest and stockholders' equity	\$ 942,396	\$ 909,236	\$ 892,937
--	------------	------------	------------

(1) Derived from audited financial statements.

The accompanying Notes are an integral part of the Consolidated Financial Statements.

3

---

## POOL CORPORATION

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2015	2014
Operating activities		
Net income	\$ 125,645	\$ 113,009
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	11,920	10,749
Amortization	771	1,075
Share-based compensation	7,112	6,854
Excess tax benefits from share-based compensation	(4,916)	(4,141)
Equity earnings in unconsolidated investments	(259)	(209)
Other	2,314	2,495
Changes in operating assets and liabilities, net of effects of acquisitions:		
Receivables	(78,662)	(79,891)
Product inventories	52,463	19,262
Prepaid expenses and other assets	296	(1,212)
Accounts payable	(66,035)	(61,544)
Accrued expenses and other current liabilities	27,334	30,773
Net cash provided by operating activities	77,983	37,220
Investing activities		
Acquisition of businesses, net of cash acquired	(602)	(9,381)
Purchase of property and equipment, net of sale proceeds	(21,299)	(14,687)
Payments to fund credit agreement	(6,300)	—
Collections from credit agreement	4,557	—
Other investments, net	75	133
Net cash used in investing activities	(23,569)	(23,935)
Financing activities		
Proceeds from revolving line of credit	721,835	658,720
Payments on revolving line of credit	(690,677)	(542,018)
Proceeds from asset-backed financing	128,400	121,600
Payments on asset-backed financing	(85,800)	(93,600)
Proceeds from short-term borrowings, long-term debt and other long-term liabilities	4,948	1,621
Payments on short-term borrowings, long-term debt and other long-term liabilities	(4,678)	—
Payments of deferred financing costs	—	(7)
Excess tax benefits from share-based compensation	4,916	4,141
Proceeds from stock issued under share-based compensation plans	10,906	8,090
Payments of cash dividends	(32,008)	(28,075)
Purchases of treasury stock	(90,306)	(135,155)
Net cash used in financing activities	(32,464)	(4,683)
Effect of exchange rate changes on cash and cash equivalents	(7,276)	(2,153)
Change in cash and cash equivalents	14,674	6,449
Cash and cash equivalents at beginning of period	14,830	8,006
Cash and cash equivalents at end of period	\$ 29,504	\$ 14,455



The accompanying Notes are an integral part of the Consolidated Financial Statements.

4

---

## POOL CORPORATION

### Notes to Consolidated Financial Statements

(Unaudited)

#### Note 1 – Summary of Significant Accounting Policies

Pool Corporation (the Company, which may be referred to as we, us or our) prepared the unaudited interim Consolidated Financial Statements following U.S. generally accepted accounting principles (GAAP) and the requirements of the Securities and Exchange Commission (SEC) for interim financial information. As permitted under those rules, we have condensed or omitted certain footnotes and other financial information required for complete financial statements.

On July 31, 2014, we completed the purchase of a 60% interest in Pool Systems Pty. Ltd. (PSL), an Australian company. We accounted for this acquisition using the acquisition method of accounting. The purchase constitutes a controlling interest in the acquired company, which requires us to consolidate PSL's financial position and results of operations from the date of acquisition.

The Consolidated Financial Statements include all normal and recurring adjustments that are necessary for a fair presentation of our financial position and operating results. All significant intercompany accounts and intercompany transactions have been eliminated.

A description of our significant accounting policies is included in our 2014 Annual Report on Form 10-K. You should read the interim Consolidated Financial Statements in conjunction with the Consolidated Financial Statements and accompanying notes in our Annual Report. The results for our three and nine month periods ended September 30, 2015 are not necessarily indicative of the expected results for our fiscal year ending December 31, 2015.

#### Reclassifications

On our Condensed Consolidated Statements of Cash Flows, for comparative purposes, we reclassified certain amounts in 2014 to conform to our 2015 presentation. Within Net cash provided by operating activities, we now include the amount of our provision for deferred income taxes as opposed to the change in deferred income taxes within the Other line item. This change resulted in a reclassification of amounts between the Other line item and the Accrued expenses and other current liabilities line item. This reclassification had no impact on our Net cash provided by operating activities or total cash flows for any period presented.

#### Variable Interest Entity

In February 2015, we entered into a five-year credit agreement with a swimming pool retailer. Under this agreement and the related revolving note, we are the primary lender of operating funds for this entity. The total lending commitment under the credit agreement is \$8.5 million, of which a net \$3.0 million was outstanding as of September 30, 2015. Amounts outstanding under the credit agreement are recorded within Other assets, net on our Consolidated Balance Sheets and are collateralized by essentially all of the assets of the business. We have a variable interest in this entity; however, we have no decision-making authority over its activities through voting or other rights. Additionally, we have no obligation to absorb any of its losses, nor do we have the right to receive any residual returns, should either occur. We are not considered the primary beneficiary of this variable interest entity, and therefore we are not required to consolidate this entity's financial statements.

#### Retained Deficit

We account for the retirement of treasury shares as a reduction of retained earnings (deficit). As of September 30, 2015, the Retained deficit on our Consolidated Balance Sheets reflects cumulative net income, the cumulative impact of adjustments for changes in accounting pronouncements, treasury share retirements since the inception of our share repurchase programs of \$906.0 million and cumulative dividends of \$306.9 million.

#### Note 2 – Earnings Per Share

We calculate basic earnings per share (EPS) by dividing Net income attributable to Pool Corporation by the weighted average number of common shares outstanding. We include outstanding unvested restricted stock awards of our common stock in the basic weighted average share calculation. Diluted EPS includes the dilutive effects of other share-based awards. Stock options with exercise prices that are higher than the average market prices of our common stock for the periods presented are excluded from the diluted EPS calculation because the effect is anti-dilutive.

The table below presents the computation of EPS, including the reconciliation of basic and diluted weighted average shares outstanding (in thousands, except EPS):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net income	\$39,403	\$34,958	\$125,645	\$113,009
Net (income) loss attributable to noncontrolling interest	44	(122)	144	(122)
Net income attributable to Pool Corporation	\$39,447	\$34,836	\$125,789	\$112,887
Weighted average shares outstanding:				
Basic	42,826	43,756	43,266	44,563
Effect of dilutive securities:				
Stock options and employee stock purchase plan	1,113	1,108	1,141	1,167
Diluted	43,939	44,864	44,407	45,730
Earnings per share:				
Basic	\$0.92	\$0.80	\$2.91	\$2.53
Diluted	\$0.90	\$0.78	\$2.83	\$2.47
Anti-dilutive stock options excluded from diluted earnings per share computations	—	169	176	169

#### Note 3 – Acquisitions

In April 2015, we acquired certain distribution assets from Poolwerx Development LLC and opened a satellite sales center location serving South Mesa, Arizona.

We completed our acquisition accounting for this acquisition. This acquisition did not have a material impact on our financial position or results of operations.

In December 2014, we acquired certain distribution assets of St. Louis Hardscape Material & Supply, LLC, a hardscape and landscaping materials supplier with one location in St. Louis, Missouri. Because this acquisition was completed on December 31, 2014, we have included the results of this acquired company beginning January 1, 2015.

We completed our preliminary acquisition accounting for this acquisition, subject to adjustments in accordance with the terms of the purchase agreements during the one year measurement period. This acquisition did not have a material impact on our financial position or results of operations.

In February 2014, we acquired certain distribution assets of Atlantic Chemical & Aquatics Inc., a regional swimming pool products distributor based in Nova Scotia with two sales center locations serving the Maritime Provinces of Canada. In March 2014, we acquired certain distribution assets of DFW Stone Supply, LLC, a distributor of natural stone and rock products and masonry supplies with two sales center locations in the Dallas, Texas metropolitan area. In July 2014, we purchased a 60% controlling interest in PSL, a distributor of swimming pool and spa equipment, accessories and leisure products, with one sales center located in Brisbane, Australia. As part of this transaction, PSL acquired Niagara Pool Supplies (Niagara), a distributor of pool products, with two sales centers in New South Wales, Australia.

We completed our acquisition accounting for these acquisitions. These acquisitions did not have a material impact on our financial position or results of operations.

## Note 4 – Fair Value Measurements and Interest Rate Swaps

Our assets and liabilities that are measured at fair value on a recurring basis include the unrealized gains or losses on our interest rate swap contracts and contingent consideration related to our PSL acquisition. The three levels of the fair value hierarchy under the accounting guidance are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include:

• quoted prices for similar assets or liabilities in active markets;

• quoted prices for identical or similar assets or liabilities in inactive markets;

• inputs other than quoted prices that are observable for the asset or liability; or

• inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

## Interest Rate Swaps

For determining the fair value of our interest rate swap contracts, we use significant other observable market data or assumptions (Level 2 inputs) that we believe market participants would use in pricing similar assets or liabilities, including assumptions about counterparty risk. Our fair value estimates reflect an income approach based on the terms of the interest rate swap contracts and inputs corroborated by observable market data including interest rate curves.

We have five interest rate swap contracts in place to reduce our exposure to fluctuations in interest rates on our unsecured syndicated senior credit facility (the Credit Facility). These swaps convert the variable interest rate to a fixed interest rate on borrowings under the Credit Facility. Each of these swap contracts terminates on October 19, 2016. The following table provides additional details related to each of these swap contracts:

Derivative	Effective Date	Notional Amount (in millions)	Fixed Interest Rate
Interest rate swap 1	November 21, 2011	\$25.0	1.185%
Interest rate swap 2	November 21, 2011	\$25.0	1.185%
Interest rate swap 3	December 21, 2011	\$50.0	1.100%
Interest rate swap 4	January 17, 2012	\$25.0	1.050%
Interest rate swap 5	January 19, 2012	\$25.0	0.990%

In May 2014, we entered into four forward-starting interest rate swap contracts to reduce our exposure to future fluctuations in interest rates on our Credit Facility. These swaps will convert the variable interest rate to a fixed interest rate on borrowings under the Credit Facility. Each of these forward starting swap contracts becomes effective on October 19, 2016 and terminates on September 20, 2018. The following table provides additional details related to each of these swap contracts:

Derivative	Inception Date	Notional Amount (in millions)	Fixed Interest Rate
Forward-starting interest rate swap 1	May 8, 2014	\$25.0	2.520%
Forward-starting interest rate swap 2	May 14, 2014	\$50.0	2.450%
Forward-starting interest rate swap 3	May 19, 2014	\$50.0	2.339%

Forward-starting interest rate swap 4	May 28, 2014	\$25.0	2.256%
---------------------------------------	--------------	--------	--------

7

---

We recognize any differences between the variable interest rate payments and the fixed interest rate settlements from our swap counterparties as an adjustment to interest expense over the life of the swaps. We have designated these swaps as cash flow hedges and we record the changes in the estimated fair value of the swaps to Accumulated other comprehensive income (loss) on our Consolidated Balance Sheets. If our interest rate swaps became ineffective, we would immediately recognize the changes in the estimated fair value of our swaps in earnings. Since inception, we have not recognized any gains or losses on these swaps through income and there has been no effect on income from hedge ineffectiveness.

For our five interest rate swap contracts currently in effect, a portion of the change in the estimated fair value between periods relates to future interest expense. Recognition of the change in fair value between periods attributable to accrued interest is reclassified from Accumulated other comprehensive income (loss) to Interest expense, net on the Consolidated Statements of Income. These amounts were not material in the first nine months of 2015 nor 2014.

The table below presents the estimated fair value of our interest rate swap contracts and our forward-starting interest rate swap contracts (in thousands):

	Fair Value at	
	September 30,	
Level 2	2015	2014
Unrealized gains on interest rate swaps	\$—	\$ 196
Unrealized losses on interest rate swaps	(4,777	) (1,239

We include unrealized losses in Accrued expenses and other current liabilities and unrealized gains in Prepaid expenses and other current assets on the Consolidated Balance Sheets.

Failure of our swap counterparties would result in the loss of any potential benefit to us under our swap contracts. In this case, we would still be obligated to pay the variable interest payments underlying the Credit Facility. Additionally, failure of our swap counterparties would not eliminate our obligation to continue to make payments under our existing swap contracts if we continue to be in a net pay position.

#### Other

The carrying values of cash, receivables, accounts payable and accrued liabilities approximate fair value due to the short maturity of those instruments. The carrying value of the note receivable with our variable interest entity and the carrying value of long-term debt approximate fair value. Our determination of the estimated fair values of these long-term instruments reflects a discounted cash flow model using our estimates, including assumptions related to borrowing rates and collectibility (Level 3 inputs).



## Note 5 – Debt

The table below presents the components of our debt as of September 30, 2015 and September 30, 2014 (in thousands):

	September 30,	
	2015	2014
Variable rate debt		
Short-term borrowings	\$ 965	\$—
Current portion of long-term debt:		
Australian Seasonal Credit Facility	834	2,618
Short-term borrowings and current portion of long-term debt and other long-term liabilities	1,799	2,618
Long-term portion:		
Revolving Credit Facility	282,867	311,120
Receivables Securitization Facility	110,200	80,000
Long-term debt	393,067	391,120
Total debt	\$ 394,866	\$ 393,738

Certain of our foreign subsidiaries entered into a cash pooling arrangement with a financial institution for cash management purposes. This arrangement allows the participating subsidiaries to withdraw cash from the financial institution to the extent that aggregate cash deposits held by these subsidiaries are available at the financial institution. To the extent the participating subsidiaries are in an overdraft position, such overdrafts are recorded as short-term borrowings under a committed cash overdraft facility. These borrowings bear interest at a variable rate based on 3-month Euro Interbank Offered Rate (EURIBOR), plus a fixed margin. We also pay a commitment fee on the borrowing capacity of €5 million. This fee is paid annually in advance.

PSL utilizes the Australian Seasonal Credit Facility to supplement working capital needs during its peak season, which runs from July to March. The arrangement provides a borrowing capacity of A\$3.0 million, and any amounts outstanding must be repaid by April 1.

The Receivables Securitization Facility (the Receivables Facility) provides for the sale of certain of our receivables to a wholly owned subsidiary (the Securitization Subsidiary). The Securitization Subsidiary transfers variable undivided percentage interests in the receivables and related rights to certain third party financial institutions in exchange for cash proceeds, limited to the applicable funding capacities. Upon payment of the receivables by customers, rather than remitting to the financial institutions the amounts collected, we retain such collections as proceeds for the sale of new receivables until payments become due to the third party financial institutions.

We account for the sale of the receivable interests as a secured borrowing on our Consolidated Balance Sheets. The receivables subject to the agreement collateralize the cash proceeds received from the third party financial institutions. We classify the entire outstanding balance as Long-term debt on our Consolidated Balance Sheets as we intend to refinance the obligations on a long term basis. We present the receivables that collateralize the cash proceeds separately as Receivables pledged under receivables facility on our Consolidated Balance Sheets.

## Note 6 – Redeemable Noncontrolling Interest

As discussed in Note 3 - Acquisitions, in July 2014, we purchased a controlling interest in PSL. Included in the transaction documents is a put/call option deed that grants us an option to purchase the shares held by the noncontrolling interest, and grants the holder of the noncontrolling interest an option to require us to purchase its shares in one or two transactions. The put/call option deed in this transaction is considered an equity contract and therefore a financial instrument under the accounting guidance. In applying the guidance for this transaction, we have determined that the financial instrument is embedded in the noncontrolling interest. As a public company, we are required to classify the noncontrolling interest and the embedded financial instrument as redeemable noncontrolling interest in a separate section of our Consolidated Balance Sheets, between liabilities and equity.

At the end of each period, we record the portion of comprehensive income or loss attributable to the noncontrolling interest to Redeemable noncontrolling interest to determine the carrying amount. We are required to compare the carrying amount to our estimated redemption value at the end of each reporting period. The redemption value is based on a multiple of a PSL earnings measure for a specified time period. To the extent that the estimated redemption value exceeds the carrying amount, we would record an adjustment to Redeemable noncontrolling interest. We did not record such an adjustment at September 30, 2015.

The table below presents the changes in Redeemable noncontrolling interest (in thousands):

	September 30, 2015
Redeemable noncontrolling interest, beginning of period	\$3,113
Net loss attributable to noncontrolling interest	(144 )
Other comprehensive loss attributable to noncontrolling interest	(512 )
Redeemable noncontrolling interest, end of period	\$2,457

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with Management's Discussion and Analysis included in our 2014 Annual Report on Form 10-K.

For a discussion of our base business calculations, see the RESULTS OF OPERATIONS section below.

Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995

Our disclosure and analysis in this report contains forward-looking information that involves risks and uncertainties. Our forward looking statements express our current expectations or forecasts of possible future results or events, including projections of future performance, statements of management's plans and objectives, future contracts, and forecasts of trends and other matters. Forward-looking statements speak only as of the date of this filing, and we undertake no obligation to update or revise such statements to reflect new circumstances or unanticipated events as they occur. You can identify these statements by the fact that they do not relate strictly to historic or current facts and often use words such as "anticipate," "estimate," "expect," "believe," "will likely result," "outlook," "project," "should" and other words and expressions of similar meaning.

No assurance can be given that the results in any forward-looking statements will be achieved and actual results may differ materially due to one or more factors, including the sensitivity of our business to weather conditions, changes in the economy and the housing market, our ability to maintain favorable relationships with suppliers and manufacturers, competition from other leisure product alternatives and mass merchants and other risks detailed in our 2014 Annual Report on Form 10-K. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act.

## OVERVIEW

### Financial Results

We finished the third quarter with record results. Increased market share and continued gradual recovery of discretionary spending drove solid third quarter sales, gross profit and earnings growth. We believe our results are a direct reflection of our resilience and our proven ability to help our customers take full advantage of the opportunities available to them. Mild September weather extended the season in northern markets, while warm and dry conditions enjoyed by much of the country late in the season also positively impacted results in the third quarter. Net sales for the third quarter of 2015 were \$645.8 million compared to \$615.5 million in the third quarter of 2014, with base business sales up 5% for the period. Our sales rebounded in the quarter to more normalized levels, as weather improved in markets that had experienced poor conditions through June. We realized double-digit growth in building materials and equipment sales, driven by the continued recovery in remodeling and replacement activity. International currencies remained weak compared to the U.S. dollar, resulting in an almost 2% unfavorable impact on consolidated net sales. In local currencies, our international business realized aggregate sales growth of approximately 6% for the third quarter of 2015, but when translated into U.S. dollars for consolidation purposes, these sales declined 13% for the period.

Gross profit for the third quarter of 2015 increased 5% compared to the same period last year. Gross profit as a percentage of net sales (gross margin) decreased 10 basis points to 28.5% compared to the third quarter of 2014. Selling and administrative expenses (operating expenses) increased 1% compared to the third quarter of 2014, with base business operating expenses essentially flat over the comparable period. An increase in performance-based incentive compensation was offset by an approximately 2% favorable impact on operating expenses from the stronger U.S. dollar relative to foreign currencies.

Operating income for the quarter increased 12% compared to the same period in 2014. Operating income as a percentage of net sales (operating margin) was 10.1% for the third quarter of 2015 compared to 9.5% in the third quarter of 2014 as we have effectively leveraged our existing operating structure to drive efficiencies and improve operating margins.

Net income attributable to Pool Corporation increased 13% compared to the third quarter of 2014. Earnings per share was up 15% to a record \$0.90 per diluted share for the three months ended September 30, 2015 versus \$0.78 per diluted share for the comparable period in 2014. We estimate a \$0.01 negative impact on earnings per share in the quarter versus the comparable 2014 period, due to the impact of the stronger U.S. dollar on the translation of foreign currency denominated earnings.

## Financial Position and Liquidity

Total net receivables, including pledged receivables, increased 6% from September 30, 2014. This increase was consistent with our sales growth for the quarter. Our allowance for doubtful accounts balance was \$3.5 million at September 30, 2015 compared to \$4.3 million at September 30, 2014, reflecting improved aging trends, with a smaller percentage of total receivables being greater than 30 days past due.

Net inventory levels at September 30, 2015 remained flat compared to levels at September 30, 2014. The inventory reserve was \$8.3 million at both September 30, 2015 and September 30, 2014. Our inventory turns, as calculated on a trailing twelve month basis, were consistent at 3.4 times at both September 30, 2015 and September 30, 2014.

Total debt outstanding was \$394.9 million at September 30, 2015, consistent with total debt at September 30, 2014.

## Current Trends and Outlook

For a detailed discussion of trends through 2014, see the Current Trends and Outlook section of Management's Discussion and Analysis included in Item 7 of our 2014 Annual Report on Form 10-K.

As we begin our seasonally slower fourth quarter, we are looking forward to a strong finish that will further our position and lay a solid foundation for a successful 2016. We expect sales growth of approximately 4% for the full year, despite an estimated 2% continuing adverse impact from currency translation. We continue to expect the full year 2015 gross margin to be relatively flat compared to 2014.

Overall, we anticipate operating expenses will grow less than half the rate of our gross profit growth in 2015, reflecting modest inflationary increases, including higher salary and employee insurance related expenses, offset by the impact of lower expenses from our international subsidiaries when translated into the stronger U.S. dollar. For the full year 2015, we project our effective income tax rate will approximate 38.5%. Our effective tax rate is dependent upon our results of operations and may change if actual results are different from our current expectations, particularly any significant changes in our geographic mix. Our total income tax provision may also fluctuate on a quarterly basis.

Based on 2015 results to date, we have raised our annual earnings guidance range to \$2.80 to \$2.85 per diluted share, compared to our most recent range of \$2.72 to \$2.82 per diluted share. Our results for the year should be consistent with our long-term expectations of 15% or higher EPS growth. We expect cash provided by operations will be in line with net income for the 2015 fiscal year and anticipate that we may use approximately \$100.0 million in cash to fund share repurchases in the year.

## RESULTS OF OPERATIONS

As of September 30, 2015, we conducted operations through 331 sales centers in North America, Europe, South America and Australia.

The following table presents information derived from the Consolidated Statements of Income expressed as a percentage of net sales:

	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
	2015	2014	2015	2014	
Net sales	100.0	% 100.0	% 100.0	% 100.0	%
Cost of sales	71.5	71.4	71.4	71.3	
Gross profit	28.5	28.6	28.6	28.7	
Operating expenses	18.4	19.1	17.8	18.6	
Operating income	10.1	9.5	10.8	10.1	
Interest expense, net	0.4	0.3	0.3	0.3	
Income before income taxes and equity earnings	9.8	% 9.2	% 10.5	% 9.8	%

Note: Due to rounding, percentages may not add up to income before income taxes and equity earnings.

We have included the results of operations from acquisitions in 2015 and 2014 in our consolidated results since the respective acquisition dates.

Edgar Filing: POOL CORP - Form 10-Q

Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

The following table breaks out our consolidated results into the base business component and the excluded component (sales centers excluded from base business):

(Unaudited) (in thousands)	Base Business		Excluded		Total	
	Three Months Ended September 30,		Three Months Ended September 30,		Three Months Ended September 30,	
	2015	2014	2015	2014	2015	2014
Net sales	\$ 641,210	\$ 612,112	\$ 4,569	\$ 3,424	\$ 645,779	\$ 615,536
Gross profit	182,624	174,766	1,664	1,478	184,288	176,244
Gross margin	28.5	% 28.6	% 36.4	% 43.2	% 28.5	% 28.6
Operating expenses	116,805	116,483	1,971	1,304	118,776	117,787
Expenses as a % of net sales	18.2	% 19.0	% 43.1	% 38.1	% 18.4	% 19.1
Operating income (loss)	65,819	58,283	(307 )	174	65,512	58,457
Operating margin	10.3	% 9.5	% (6.7 )	% 5.1	% 10.1	% 9.5

In our calculation of base business results, we have excluded the following acquisitions for the periods identified:

Acquired	Acquisition Date	Net Sales Centers Acquired	Periods Excluded
Poolwerx Development LLC <sup>(1)</sup>	April 2015	1	July - September 2015
St. Louis Hardscape Material & Supply, LLC <sup>(1) (2)</sup>	December 2014	1	July - September 2015
Pool Systems Pty. Ltd.	July 2014	3	July - September 2015 and August - September 2014

<sup>(1)</sup> We acquired certain distribution assets of each of these companies.

We completed this acquisition on December 31, 2014. We began including this sales center in our sales center

<sup>(2)</sup> count in January 2015, as shown in the table below which summarizes the changes in our sales centers during 2015.

When calculating our base business results, we exclude sales centers that are acquired, closed, or opened in new markets, for a period of 15 months. We also exclude consolidated sales centers when we do not expect to maintain the majority of the existing business and existing sales centers that are consolidated with acquired sales centers.

We generally allocate corporate overhead expenses to excluded sales centers on the basis of their net sales as a percentage of total net sales. After 15 months of operations, we include acquired, consolidated and new market sales centers in the base business calculation including the comparative prior year period.

The table below identifies the changes in the number of sales centers during the first nine months of 2015:

December 31, 2014	328
Acquired locations	2
New locations	3
Consolidated locations	(2 )
September 30, 2015	331





## Net Sales

(in millions)	Three Months Ended September 30,			Change	
	2015	2014			
Net sales	\$645.8	\$615.5	\$30.3	5%	

Net sales for the third quarter of 2015 increased 5% compared to the third quarter of 2014, with base business sales also up 5% for the period. More normalized weather conditions in markets that experienced excessive rain and other poor weather conditions in the second quarter, as well as warmer and drier conditions throughout much of the U.S. late in the third quarter, favorably impacted our third quarter sales growth. The continued strength of the U.S. dollar relative to most foreign exchange rates negatively impacted our consolidated sales for the quarter by approximately 2%.

Continued improvement in consumer discretionary expenditures, including some market recovery in remodeling and replacement activity, mitigated the drag on our sales growth rates created by foreign currency translation. Sales of building materials and tile grew by 12% compared to the third quarter of 2014. Collectively, these products accounted for approximately 10% of our total sales for the quarter. Sales of equipment, which includes heaters, pumps and filters, increased by 10% compared to the third quarter of 2014. Chemical sales increased by 4%, primarily due to market share gains, increased sales in markets previously impacted by wet weather and flooding, and warmer than average temperatures in northern markets during the shoulder of the season.

## Gross Profit

(in millions)	Three Months Ended September 30,			Change	
	2015	2014			
Gross profit	\$184.3	\$176.2	\$8.1	5%	
Gross margin	28.5	% 28.6	%		

Gross margin for the third quarter of 2015 declined 10 basis points compared to the third quarter of 2014, which included some impact from unfavorable mix as we realized a higher rate of sales growth on our lower-margin product categories.

## Operating Expenses

(in millions)	Three Months Ended September 30,			Change	
	2015	2014			
Operating expenses	\$118.8	\$117.8	\$1.0	1%	
Operating expenses as a % of net sales	18.4	% 19.1	%		

Operating expenses increased 1% in the third quarter of 2015 compared to the third quarter of 2014, with base business operating expenses flat compared to the same period last year. Performance-based employee compensation was up approximately \$2.8 million compared to the third quarter of 2014 based on our improved performance expectation for the full year. This increase was offset by the approximately 2% favorable impact on operating expenses resulting from the continued strength of the U.S. dollar relative to foreign currencies.

## Interest Expense, Net

Interest expense, net increased 33% compared to the third quarter of 2014 driven primarily by the increase in foreign currency transaction losses included in this line item. Interest expense on borrowings increased only 2% quarter over

quarter. Our weighted average effective interest rate remained consistent at 1.8% for the third quarter of 2015 and 2014 on modestly higher average outstanding debt of \$403.7 million versus \$392.4 million for the respective periods.

#### Income Taxes

Our effective income tax rate was 37.6% for the three months ended September 30, 2015 compared to 38.4% for the three months ended September 30, 2014. The decrease reflects the impact of our accounting for uncertain tax positions, including the expiration of statutes of limitations for another period, which typically occurs in the third quarter.

#### Net Income and Earnings Per Share

Net income attributable to Pool Corporation for the third quarter of 2015 increased 13% to \$39.4 million compared to the third quarter of 2014. Earnings per diluted share was \$0.90 for the third quarter of 2015, an increase of \$0.12, or 15%, per diluted share over the same period of 2014. We estimate a \$0.01 negative impact on diluted earnings per share in the quarter versus the comparable 2014 period, due to the impact of the stronger U.S. dollar on the translation of foreign currency denominated earnings.

Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

The following table breaks out our consolidated results into the base business component and the excluded component (sales centers excluded from base business):

(Unaudited) (in thousands)	Base Business		Excluded		Total			
	Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,			
	2015	2014	2015	2014	2015	2014		
Net sales	\$ 1,933,349	\$ 1,864,625	\$ 14,715	\$ 5,495	\$ 1,948,064	\$ 1,870,120		
Gross profit	551,946	535,127	5,403	2,193	557,349	537,320		
Gross margin	28.5	% 28.7	% 36.7	% 39.9	% 28.6	% 28.7		%
Operating expenses	340,716	345,909	6,390	1,809	347,106	347,718		
Expenses as a % of net sales	17.6	% 18.6	% 43.4	% 32.9	% 17.8	% 18.6		%
Operating income (loss)	211,230	189,218	(987 )	384	210,243	189,602		
Operating margin	10.9	% 10.1	% (6.7 )	% 7.0	% 10.8	% 10.1		%

In our calculation of base business results, we have excluded the following acquisitions for the periods identified:

Acquired	Acquisition Date	Net Sales Centers Acquired	Periods Excluded
Poolwerx Development LLC <sup>(1)</sup>	April 2015	1	April - September 2015
St. Louis Hardscape Material & Supply, LLC <sup>(1)</sup> (2)	December 2014	1	January - September 2015
Pool Systems Pty. Ltd.	July 2014	3	January - September 2015 and August - September 2014
DFW Stone Supply, LLC <sup>(1)</sup>	March 2014	2	January - May 2015 and March - May 2014
Atlantic Chemical & Aquatics Inc. <sup>(1)</sup>	February 2014	2	January - April 2015 and February - April 2014

<sup>(1)</sup> We acquired certain distribution assets of each of these companies.

<sup>(2)</sup> We completed this acquisition on December 31, 2014, and we began including this sales center in our sales center count in January 2015.

For a more detailed explanation of how we calculated base business results and a summary of the changes in our sales centers since December 31, 2014, please refer to page 14 under the heading Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014.

#### Net Sales

(in millions)	Nine Months Ended September 30,			Change	
	2015	2014			
Net sales	\$ 1,948.1	\$ 1,870.1	\$ 78.0	4%	

Net sales for the first nine months of 2015 increased 4% compared to the same period last year. After sales exhibited a strong start in the first quarter, adverse weather conditions in the second quarter negatively impacted sales in several important markets. Weather conditions normalized in the third quarter with mild weather in northern markets extending the season and contributing to year over year sales growth. The sustained strength of the U.S. dollar relative to foreign currencies adversely impacted our consolidated sales during the first nine months of the year. In local currencies, our international business generated an estimated 8% aggregate sales growth rate year to date, but when translated into U.S. dollars for consolidation purposes, these sales declined 11% for the period. Continued gradual recovery of demand for discretionary replacement and remodel products somewhat offset these challenges.

The following factors provided some benefit to our sales growth during the first nine months of the year (listed in order of estimated magnitude):

- continued improvement in consumer discretionary expenditures, including some market recovery in remodeling and replacement activity, as evidenced by sales growth rates for product offerings such as building materials and equipment (see discussion below); and
- inflationary (estimated at less than 1%) product cost increases.

The following factors adversely impacted our sales growth during the first nine months of the year (listed in order of estimated magnitude):

- the strengthening of the U.S. dollar relative to most foreign exchange rates, which negatively impacted our consolidated sales by approximately 2%; and
- record rainfall in Texas and adjacent states in the second quarter, which delayed construction projects and reduced spending on related discretionary products.

Sales of building materials and tile grew by 12% compared to the first nine months of 2014. Collectively, these products accounted for approximately 10% of our total sales for the nine month period. Our continued strong growth in building materials primarily reflects market share growth with our expansion of stocking locations and broader product offerings as well as the partial recovery in pool remodeling. Sales of equipment, which includes heaters, pumps and filters, increased by 8% compared to the first nine months of 2014. Chemical sales increased by approximately 5% with only a 1% impact from pricing inflation.

#### Gross Profit

(in millions)	Nine Months Ended			Change	
	September 30,				
	2015	2014			
Gross profit	\$557.3	\$537.3	\$20.0		4%
Gross margin	28.6	% 28.7	%		

Gross margin for the nine months ended September 30, 2015 declined approximately 10 basis points compared to the same period last year. An increase in customer early buy shipments in 2015 negatively impacted gross margin, as these sales are primarily sold in bulk quantities and include applicable discounts. Excluding these impacts, gross margin was basically flat compared to the first nine months of 2014.

#### Operating Expenses

(in millions)	Nine Months Ended			Change	
	September 30,				
	2015	2014			
Operating expenses	\$347.1	\$347.7	\$(0.6)		—%

Edgar Filing: POOL CORP - Form 10-Q

Operating expenses as a % of net sales	17.8	%	18.6	%
--	------	---	------	---

Operating expenses for the first nine months of 2015 were consistent with the same period in 2014, with base business operating expenses down 2%. The stronger U.S. dollar relative to foreign currencies favorably impacted our year to date operating expenses by approximately 2%.

18

---

#### Interest Expense, Net

Interest expense, net for the first nine months of 2015 increased 12% compared to the same period last year. Our weighted average effective interest rate decreased to 1.8% for the first nine months of 2015 from 1.9% for the same period of 2014 on higher average outstanding debt of \$394.1 million versus \$345.8 million for the respective periods. The decrease in our effective interest rate compared to last year reflects the utilization of increased available borrowing capacity on our Receivables Facility at lower interest rates than under our Credit Facility.

#### Income Taxes

Our effective income tax rate was 38.5% for the nine months ended September 30, 2015, consistent with the rate of 38.7% for the nine months ended September 30, 2014.

#### Net Income and Earnings Per Share

Earnings per share for the first nine months of 2015 increased 15% to \$2.83 per diluted share on Net income attributable to Pool Corporation of \$125.8 million, compared to \$2.47 per diluted share on Net income attributable to Pool Corporation of \$112.9 million in the comparable 2014 period. We estimate a \$0.04 negative impact on diluted earnings per share for the nine months ended September 30, 2015 versus the comparable 2014 period, due to the impact of the stronger U.S. dollar on the translation of foreign currency denominated earnings.



## Seasonality and Quarterly Fluctuations

Our business is highly seasonal. In general, sales and operating income are highest during the second and third quarters, which represent the peak months of both swimming pool use and installation and landscape maintenance and installation. Sales are substantially lower during the first and fourth quarters, when we may incur net losses. In 2014, we generated approximately 65% of our net sales and 96% of our operating income in the second and third quarters of the year.

We typically experience a build-up of product inventories and accounts payable during the winter months in anticipation of the peak selling season. Excluding borrowings to finance acquisitions and share repurchases, our peak borrowing usually occurs during the second quarter, primarily because extended payment terms offered by our suppliers typically are payable in April, May and June, while our peak accounts receivable collections typically occur in June, July and August.

The following table presents certain unaudited quarterly data for the first, second and third quarters of 2015, the four quarters of 2014 and the fourth quarter of 2013. We have included income statement and balance sheet data for the most recent eight quarters to allow for a meaningful comparison of the seasonal fluctuations in these amounts. In our opinion, this information reflects all normal and recurring adjustments considered necessary for a fair presentation of this data. Due to the seasonal nature of our industry, the results of any one or more quarters are not necessarily a good indication of results for an entire fiscal year or of continuing trends.

(Unaudited) (in thousands)	QUARTER							
	2015			2014		2013		
	Third	Second	First	Fourth	Third	Second	First	Fourth
<b>Statement of Income</b>								
<b>(Loss) Data</b>								
Net sales	\$ 645,779	\$ 851,855	\$ 450,430	\$ 376,442	\$ 615,536	\$ 848,240	\$ 406,344	\$ 340,789
Gross profit	184,288	248,260	124,801	106,020	176,244	246,976	114,100	95,793
Operating income (loss)	65,512	129,132	15,599	(732 )	58,457	122,499	8,646	(6,814 )
Net income (loss)	39,403	77,809	8,433	(1,979 )	34,958	73,863	4,188	(4,975 )
<b>Balance Sheet Data</b>								
Total receivables, net	\$ 219,774	\$ 318,498	\$ 238,727	\$ 140,645	\$ 207,165	\$ 306,500	\$ 211,107	\$ 125,287
Product inventories, net	412,587	473,362	559,260	466,962	414,331	451,507	527,304	429,197
Accounts payable	170,582	236,868	375,995	236,294	154,511	233,549	370,002	214,596
Total debt	394,866	495,250	394,559	320,838	393,738	430,971	324,226	246,418

We expect that our quarterly results of operations will continue to fluctuate depending on the timing and amount of revenue contributed by new and acquired sales centers. Based on our peak summer selling season, we generally open new sales centers and close or consolidate sales centers, when warranted, either in the first quarter before the peak selling season begins or in the fourth quarter after the peak selling season ends.

Weather is one of the principal external factors affecting our business. The table below presents some of the possible effects resulting from various weather conditions.

Weather	Possible Effects
Hot and dry	<ul style="list-style-type: none"> <li>• Increased purchases of chemicals and supplies for existing swimming pools</li> <li>• Increased purchases of above-ground pools and irrigation products</li> </ul>
Unseasonably cool weather or extraordinary amounts of rain	<ul style="list-style-type: none"> <li>• Fewer pool and landscape installations</li> <li>• Decreased purchases of chemicals and supplies</li> <li>• Decreased purchases of impulse items such as above-ground pools and accessories</li> </ul>
Unseasonably early warming trends in spring/late cooling trends in fall (primarily in the northern half of the U.S. and Canada)	<ul style="list-style-type: none"> <li>• A longer pool and landscape season, thus positively impacting our sales</li> </ul>
Unseasonably late warming trends in spring/early cooling trends in fall (primarily in the northern half of the U.S. and Canada)	<ul style="list-style-type: none"> <li>• A shorter pool and landscape season, thus negatively impacting our sales</li> </ul>

In the first quarter of 2015, we benefited from favorable weather in most of our year-round markets, which experienced warmer-than-normal temperatures for this time of year. These warmer temperatures contributed to sales growth in maintenance products, such as chemicals, in these markets. Severe drought conditions continued to afflict California, but had little impact on our first quarter sales. Conversely, the Central, Southeast and Midwest regions of the United States experienced cooler-than-normal temperatures, while the Northeast and eastern Canada experienced another year of near record cold temperatures and substantial snowfall, which inhibited sales growth in these areas.

The second quarter of 2015 marked the wettest on record for much of Texas and Oklahoma and reflected significant precipitation for most states in the South and Central United States. This excessive precipitation significantly impacted our second quarter sales, delaying construction projects and reducing spending on related discretionary products. Cooler than normal temperatures in the Midwest and the Northeast in June, coupled with substantial rainfall, delayed pool openings and hampered sales growth in these markets. In contrast, our sales results met or exceeded our expectations in Florida, the Southeast and the western regions of the United States, which experienced more normal weather throughout the quarter.

Our third quarter sales benefited from a return to more normalized weather in markets impacted by poor weather conditions in the second quarter as discussed above. The warmer than average temperatures and drier than normal conditions experienced throughout much of the United States later in the quarter contributed to our sales growth. A mild September in the Northeast extended the season in these markets.



## LIQUIDITY AND CAPITAL RESOURCES

Liquidity is defined as the ability to generate adequate amounts of cash to meet short-term and long-term cash needs. We assess our liquidity in terms of our ability to generate cash to fund our operating activities, taking into consideration the seasonal nature of our business. Significant factors which could affect our liquidity include the following:

- cash flows generated from operating activities;
- the adequacy of available bank lines of credit;
- acquisitions;
- scheduled debt payments;
- dividend payments;
- capital expenditures;
- the timing and extent of share repurchases; and
- the ability to attract long-term capital with satisfactory terms.

Our primary capital needs are seasonal working capital requirements and other general corporate purposes, including acquisitions, dividend payments and share repurchases. Our primary sources of working capital are cash from operations supplemented by borrowings, which have historically been sufficient to support our growth and finance acquisitions. The same principle applies to funds used for capital expenditures and share repurchases.

We prioritize our use of cash based on investing in our business, maintaining a prudent debt structure and returning money to our shareholders. Our specific priorities for the use of cash are as follows:

- maintenance and new sales center capital expenditures;
- strategic acquisitions executed opportunistically;
- payment of cash dividends as and when declared by our Board of Directors (Board); and
- repayment of debt or repurchase of our common stock.

As discussed further under the subheading Future Sources and Uses of Cash on page 23, we are required to comply with certain financial covenants under our debt agreements, including the maintenance of a maximum average total leverage ratio. Although more conservative than the maximum, we strive to maintain an average total leverage ratio of 1.50 to 2.00. Within the constraints of these metrics, we determine the timing and extent to which we will repurchase our common stock under Board authorized repurchase programs and/or repay our debt.

Capital expenditures have historically averaged 0.5% to 1.0% of net sales. Capital expenditures were 0.8% of net sales in 2014, 0.9% of net sales in 2013 and 0.8% of net sales in 2012. Going forward, we project capital expenditures will be near the high end of our historical range due to our continued investment in new vehicles, equipment and technology.

## Sources and Uses of Cash

The following table summarizes our cash flows (in thousands):

	Nine Months Ended	
	September 30,	
	2015	2014
Operating activities	\$77,983	\$37,220
Investing activities	(23,569	) (23,935
Financing activities	(32,464	) (4,683

Cash provided by operating activities during the first nine months of 2015 increased \$40.8 million compared to the first nine months of 2014 driven by our net income growth, positive working capital management and the timing of inventory purchases and payments compared to last year.

Cash used in investing activities for the first nine months of 2015 includes \$1.7 million in net payments to fund a revolving note under a credit agreement, which we entered into as a lender in 2015. An additional \$6.6 million of net capital expenditures in 2015 compared to 2014 was offset by a decline in payments for acquisitions of \$8.8 million. For additional information regarding the revolving note, see Note 1 of our “Notes to Consolidated Financial Statements” included in Item 1 of this Form 10-Q.

The increase in cash used in financing activities between periods reflects a \$72.3 million decrease in cash provided by net borrowings, partially offset by a decrease in cash used for share repurchases of \$44.8 million compared to last year.

#### Future Sources and Uses of Cash

Our Credit Facility provides for \$465.0 million in borrowing capacity under a five-year unsecured revolving credit facility and includes sublimits for the issuance of swingline loans and standby letters of credit. Pursuant to an accordion feature, the aggregate maximum principal amount of the commitments under the Credit Facility may be increased at our request and with agreement by the lenders by up to \$75.0 million, to a total of \$540.0 million. The Credit Facility matures on November 20, 2019. We intend to use the Credit Facility for general corporate purposes, for future share repurchases and to fund future growth initiatives.

At September 30, 2015, there was \$282.9 million outstanding and \$178.1 million available for borrowing under the Credit Facility. We currently have five interest rate swap contracts in place that reduce our exposure to fluctuations in variable interest rates for future interest payments on the Credit Facility. These swap contracts convert the Credit Facility's variable interest rate to fixed rates of 1.185% on notional amounts totaling \$50.0 million, 1.100% on a notional amount of \$50.0 million, 1.050% on a notional amount of \$25.0 million and 0.990% on a notional amount of \$25.0 million. Interest expense related to the notional amounts under these swaps is based on the fixed rates plus the applicable margin on the Credit Facility. All five swap contracts will terminate on October 19, 2016.

In May 2014, we entered into four forward-starting interest rate swap contracts to reduce our exposure to future fluctuations in interest rates on our Credit Facility. These swap contracts will convert the Credit Facility's variable interest rate to fixed rates of 2.520% on a notional amount of \$25.0 million, 2.450% on a notional amount of \$50.0 million, 2.339% on a notional amount of \$50.0 million and 2.256% on a notional amount of \$25.0 million. Each of these forward-starting swap contracts becomes effective on October 19, 2016 and terminates on September 20, 2018.

The weighted average effective interest rate for the Credit Facility as of September 30, 2015 was approximately 1.9%, excluding commitment fees.

Financial covenants on the Credit Facility include maintenance of a maximum average total leverage ratio and a minimum fixed charge coverage ratio, which are our most restrictive financial covenants. As of September 30, 2015, the calculations of these two covenants are detailed below:

**Maximum Average Total Leverage Ratio.** On the last day of each fiscal quarter, our average total leverage ratio must be less than 3.25 to 1.00. Average Total Leverage Ratio is the ratio of the trailing twelve months (TTM) Average Total Funded Indebtedness plus the TTM Average Accounts Securitization Proceeds divided by the TTM EBITDA (as those terms are defined in the Credit Facility). As of September 30, 2015, our average total leverage ratio equaled 1.65 (compared to 1.70 as of June 30, 2015) and the TTM average total debt amount used in this calculation was \$388.1 million.

**Minimum Fixed Charge Coverage Ratio.** On the last day of each fiscal quarter, our fixed charge ratio must be greater than or equal to 2.25 to 1.00. Fixed Charge Ratio is the ratio of the TTM EBITDAR divided by TTM Interest Expense paid or payable in cash plus TTM Rental Expense (as those terms are defined in the Credit Facility). As of September 30, 2015, our fixed charge ratio equaled 5.02 (compared to 4.88 as of June 30, 2015) and TTM Rental Expense was \$49.2 million.

The Credit Facility also limits the declaration and payment of dividends on our common stock to no more than 50% of the preceding year's Net Income (as defined in the Credit Facility), provided no default or event of default has occurred and is continuing, or would result from the payment of dividends. Additionally, we may declare and pay quarterly dividends notwithstanding that the aggregate amount of dividends paid would be in excess of the 50% limit described above so long as (i) the amount per share of such dividends does not exceed the amount per share paid during the most recent fiscal year in which we were in compliance with the 50% limit and (ii) our Average Total Leverage Ratio is less than 3.00 to 1.00 both immediately before and after giving pro forma effect to such dividends. Further, dividends must be declared and paid in a manner consistent with our past practice.

Under the Credit Facility, we may repurchase shares of our common stock provided no default or event of default has occurred and is continuing, or would result from the repurchase of shares, and our maximum average total leverage ratio (determined on a pro forma basis) is less than 2.50 to 1.00. Other covenants include restrictions on our ability to grant liens, incur indebtedness, make investments, merge or consolidate, and sell or transfer assets. Failure to comply with any of our financial covenants or any other terms of the Credit Facility could result in penalty payments, higher interest rates on our borrowings or the acceleration of the maturities of our outstanding debt.

As amended on October 15, 2015, our Receivables Facility offers us a lower cost form of financing and provides a peak funding capacity that varies monthly with the seasonal variation in our borrowing base, from a low of \$55.0 million in December to a seasonal peak borrowing capacity of \$200.0 million in May and June.

The Receivables Facility, which now expires on October 16, 2017, provides for the sale of certain of our receivables to a wholly owned subsidiary (the Securitization Subsidiary). The Securitization Subsidiary transfers variable undivided percentage interests in the receivables and related rights to certain third party financial institutions in exchange for cash proceeds, limited to the applicable funding capacities. Upon payment of the receivables by customers, rather than remitting to the financial institutions the amounts collected, we retain such collections as proceeds for the sale of new receivables until payments become due.

The Receivables Facility contains terms and conditions (including representations, covenants and conditions precedent) customary for transactions of this type. Additionally, an amortization event will occur if we fail to maintain a maximum average total leverage ratio (average total funded debt/EBITDA) of 3.25 to 1.00 and a minimum fixed charge coverage ratio (EBITDAR/cash interest expense plus rental expense) of 2.25 to 1.00.

At September 30, 2015, there was \$110.2 million outstanding under the Receivables Facility at a weighted average effective interest rate of 1.0%, excluding commitment fees.

As of September 30, 2015, we were in compliance with all covenants and financial ratio requirements in our Credit Facility and our Receivables Facility. We believe we will remain in compliance with all covenants and financial ratio requirements throughout the next twelve months. For additional information regarding our debt arrangements, see Note 5 of "Notes to Consolidated Financial Statements," included in Item 8 of our 2014 Annual Report on Form 10-K. We believe we have adequate availability of capital to fund present operations and the current capacity to finance any working capital needs that may arise. We continually evaluate potential acquisitions and hold discussions with acquisition candidates. If suitable acquisition opportunities arise that would require financing, we believe that we have the ability to finance any such transactions.

As of October 23, 2015, \$78.2 million of the current Board authorized amount under our share repurchase program remained available. We expect to repurchase additional shares on the open market from time to time depending on market conditions. We plan to fund these repurchases with cash provided by operations and borrowings under the credit and receivables facilities.

#### CRITICAL ACCOUNTING ESTIMATES

We prepare our Consolidated Financial Statements in accordance with U.S. generally accepted accounting principles (GAAP), which require management to make estimates and assumptions that affect reported amounts and related disclosures. Management identifies critical accounting estimates as:

- those that require the use of assumptions about matters that are inherently and highly uncertain at the time the estimates are made; and
- those for which changes in the estimate or assumptions, or the use of different estimates and assumptions, could have a material impact on our consolidated results of operations or financial condition.

Management has discussed the development, selection and disclosure of our critical accounting estimates with the Audit Committee of our Board. For a description of our critical accounting estimates that require us to make the most difficult, subjective or complex judgments, please see our 2014 Annual Report on Form 10-K. We have not changed these policies from those previously disclosed.

#### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The new standard also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. ASU 2014-09 will be effective for annual periods beginning after December 15, 2017 and will replace most existing revenue recognition guidance in U.S. GAAP. The guidance may be applied using either a retrospective or cumulative effect transition method. We are currently evaluating the effect that ASU 2014-09 will



have on our financial position, results of operations and related disclosures.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires entities to present debt issuance costs as a direct reduction of the carrying amount of the related debt liability rather than as an asset. Amortization of the costs will continue to be recorded as interest expense. ASU 2015-03 will be effective for annual periods beginning after December 15, 2015. We do not expect ASU 2015-03 to have a material impact on our financial position, results of operations and related disclosures.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory, which requires entities to measure inventory at the lower of cost or net realizable value rather than at the lower of cost or market. Net realizable value is the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 will be effective for annual periods beginning after December 15, 2016. We do not expect ASU 2015-11 to have a material impact on our financial position, results of operations and related disclosures.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

#### Interest Rate Risk

There have been no material changes from what we reported in our Annual Report on Form 10-K for the year ended December 31, 2014 that affect fiscal 2015.

#### Currency Risk

There have been no material changes from what we reported in our Annual Report on Form 10-K for the year ended December 31, 2014 that affect fiscal 2015.

### Item 4. Controls and Procedures

The term “disclosure controls and procedures” is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Act). The rules refer to the controls and other procedures designed to ensure that information required to be disclosed in reports that we file or submit under the Act is (1) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and (2) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. As of September 30, 2015, management, including the CEO and CFO, performed an evaluation of the effectiveness of our disclosure controls and procedures. Based on that evaluation, management, including the CEO and CFO, concluded that as of September 30, 2015, our disclosure controls and procedures were effective.

We maintain a system of internal control over financial reporting that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Based on the most recent evaluation, we have concluded that no change in our internal control over financial reporting occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

There have been no material developments in our previously reported legal proceedings.

## Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below summarizes the repurchases of our common stock in the third quarter of 2015:

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan <sup>(2)</sup>	Maximum Approximate Dollar Value of Shares That May Yet be Purchased Under the Plan <sup>(3)</sup>
July 1-31, 2015	26,568	\$ 69.25	26,568	\$ 105,745,093
August 1-31, 2015	222,427	\$ 68.39	222,427	\$ 90,533,761
September 1-30, 2015	150,971	\$ 69.92	150,971	\$ 79,977,715
Total	399,966	\$ 69.02	399,966	

These shares may include shares of our common stock surrendered to us by employees in order to satisfy tax withholding obligations in connection with certain exercises of employee stock options or lapses upon vesting of restrictions on previously restricted share awards, and/or to cover the exercise price of such options granted under our share-based compensation plans. No shares were surrendered for this purpose in the third quarter of 2015.

<sup>(2)</sup> In May 2015, our Board authorized an additional \$100.0 million under our share repurchase program for the repurchase of shares of our common stock in the open market at prevailing market prices or in privately negotiated transactions.

<sup>(3)</sup> As of October 23, 2015, \$78.2 million of the authorized amount remained available under our current share repurchase program.

## Item 6. Exhibits

Exhibits filed as part of this report are listed in the Index to Exhibits appearing on page 28.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on October 30, 2015.

POOL CORPORATION

By: /s/ Mark W. Joslin  
Mark W. Joslin  
Senior Vice President and Chief Financial Officer,  
and duly authorized signatory on behalf of the  
registrant

## INDEX TO EXHIBITS

No.	Description	Filed with this Form 10-Q	Incorporated by Reference		
			Form	File No.	Date Filed
3.1	Restated Certificate of Incorporation of the Company.		10-Q	000-26640	8/9/2006
3.2	Restated Composite Bylaws of the Company.		8-K	000-26640	12/20/2012
4.1	Form of certificate representing shares of common stock of the Company.		8-K	000-26640	5/19/2006
<u>31.1</u>	Certification by Mark W. Joslin pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X			
<u>31.2</u>	Certification by Manuel J. Perez de la Mesa pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X			
<u>32.1</u>	Certification by Manuel J. Perez de la Mesa and Mark W. Joslin pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X			
101.INS	+ XBRL Instance Document	X			
101.SCH	+ XBRL Taxonomy Extension Schema Document	X			
101.CAL	+ XBRL Taxonomy Extension Calculation Linkbase Document	X			
101.DEF	+ XBRL Taxonomy Extension Definition Linkbase Document	X			
101.LAB	+ XBRL Taxonomy Extension Label Linkbase Document	X			
101.PRE	+ XBRL Taxonomy Extension Presentation Linkbase Document	X			

+ Attached as Exhibit 101 to this report are the following items formatted in XBRL (Extensible Business Reporting Language):

1. Consolidated Statements of Income for the three and nine months ended September 30, 2015 and September 30, 2014;
2. Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and September 30, 2014;
3. Consolidated Balance Sheets at September 30, 2015, December 31, 2014 and September 30, 2014;
4. Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and September 30, 2014; and
5. Notes to Consolidated Financial Statements.