POOL CORP
Form 10-Q
July 28, 2016

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

FORM 10-Q

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

For the quarterly period ended June 30, 2016

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	36-3943363
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

109 Northpark Boulevard, Covington, Louisiana	70433-5001
(Address of principal executive offices)	(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 x NO o

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 x NO o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of July 25, 2016, there were 42,047,308 shares of common stock outstanding.

POOL CORPORATION
Form 10-Q
For the Quarter Ended June 30, 2016

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POOL CORPORATION
Consolidated Statements of Income
(Unaudited)
(In thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net sales	$918,889	$851,855	$1,434,139	$1,302,285
Cost of sales	648,153	603,595	1,020,380	929,224
Gross profit	270,736	248,260	413,759	373,061
Selling and administrative expenses	128,316	119,128	241,809	228,330
Operating income	142,420	129,132	171,950	144,731
Interest and other non-operating expenses, net	4,001	1,900	6,965	3,895
Income before income taxes and equity earnings	138,419	127,232	164,985	140,836
Provision for income taxes	53,209	49,493	63,437	54,785
Equity earnings in unconsolidated investments, net	37	70	62	191
Net income	85,247	77,809	101,610	86,242
Net (income) loss attributable to noncontrolling interest	188	115	196	101
Net income attributable to Pool Corporation	$85,435	$77,924	$101,806	$86,343
Earnings per share:				
Basic	$2.03	$1.80	$2.42	$1.99
Diluted	$1.98	$1.75	$2.35	$1.94
Weighted average shares outstanding:				
Basic	42,030	43,322	42,128	43,461
Diluted	43,152	44,458	43,230	44,606
Cash dividends declared per common share	$0.31	$0.26	$0.57	$0.48

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		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income	$85,247	$77,809	$101,610	$86,242
Other comprehensive loss:				
Foreign currency translation adjustments	(1,182)	(982)	1,271	(5,690)
Change in unrealized gains and losses on interest rate swaps, net of change in taxes of $369, $(116), $1,282 and $447	(576)	182	(2,004)	(746)
Total other comprehensive loss	(1,758)	(800)	(733)	(6,436)
Comprehensive income	83,489	77,009	100,877	79,806
Comprehensive (income) loss attributable to noncontrolling interest	258	145	154	347
Comprehensive income attributable to Pool Corporation	$83,747	$77,154	$101,031	$80,153

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

POOL CORPORATION
Consolidated Balance Sheets
(In thousands, except share data)

	June 30, 2016 (Unaudited)	June 30, 2015 (Unaudited)	December 31, 2015 (1)
Assets			
Current assets:			
Cash and cash equivalents	$30,551	$38,944	$13,237
Receivables, net	119,113	93,709	54,173
Receivables pledged under receivables facility	231,899	224,789	102,583
Product inventories, net	493,254	473,362	474,275
Prepaid expenses and other current assets	13,044	11,226	11,946
Deferred income taxes	5,533	3,104	5,530
Total current assets	893,394	845,134	661,744
Property and equipment, net	85,387	65,151	69,854
Goodwill	186,092	172,815	172,761
Other intangible assets, net	14,058	11,643	11,845
Equity interest investments	1,119	1,328	1,231
Other assets	15,613	13,841	16,926
Total assets	$1,195,663	$1,109,912	$934,361
Liabilities, redeemable noncontrolling interest and stockholders' equity			
Current liabilities:			
Accounts payable	$265,349	$236,868	$246,554
Accrued expenses and other current liabilities	114,993	80,480	56,591
Short-term borrowings and current portion of long-term debt and other long-term liabilities	6,823	3,430	1,700
Total current liabilities	387,165	320,778	304,845
Deferred income taxes	28,239	23,642	29,808
Long-term debt, net	493,783	490,150	326,345
Other long-term liabilities	17,875	13,837	14,955
Total liabilities	927,062	848,407	675,953
Redeemable noncontrolling interest	2,511	2,766	2,665
Stockholders' equity:			
Common stock, $0.001 par value; 100,000,000 shares authorized; 41,942,593, 42,930,905 and 42,711,016 shares issued and outstanding at June 30, 2016, June 30, 2015 and December 31, 2015, respectively	42	43	43
Additional paid-in capital	387,890	356,410	374,138
Retained deficit	(107,337)	(87,862)	(104,709)
Accumulated other comprehensive loss	(14,505)	(9,852)	(13,729)
Total stockholders' equity	266,090	258,739	255,743
Total liabilities, redeemable noncontrolling interest and stockholders' equity	$1,195,663	$1,109,912	$934,361

(1) Derived from audited financial statements.

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

POOL CORPORATION
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2016	2015
Operating activities		
Net income	$101,610	$86,242
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation	9,743	7,687
Amortization	735	532
Share-based compensation	4,850	4,850
Excess tax benefits from share-based compensation	(3,203)	(4,568)
Equity earnings in unconsolidated investments, net	(62)	(191)
Other	2,270	1,339
Changes in operating assets and liabilities, net of effects of acquisitions:		
Receivables	(187,526)	(177,193)
Product inventories	(14,481)	(7,849)
Prepaid expenses and other assets	(1,729)	4
Accounts payable	15,041	487
Accrued expenses and other current liabilities	58,995	32,014
Net cash used in operating activities	(13,757)	(56,646)
Investing activities		
Acquisition of businesses, net of cash acquired	(19,211)	(479)
Purchase of property and equipment, net of sale proceeds	(25,779)	(16,200)
Payments to fund credit agreement	(2,232)	(5,350)
Collections from credit agreement	2,475	3,407
Other investments, net	17	59
Net cash used in investing activities	(44,730)	(18,563)
Financing activities		
Proceeds from revolving line of credit	629,351	526,116
Payments on revolving line of credit	(604,470)	(466,005)
Proceeds from asset-backed financing	145,000	128,400
Payments on asset-backed financing	(2,800)	(16,000)
Proceeds from short-term borrowings, long-term debt and other long-term liabilities	12,110	4,110
Payments on short-term borrowings, long-term debt and other long-term liabilities	(6,987)	(2,209)
Excess tax benefits from share-based compensation	3,203	4,568
Proceeds from stock issued under share-based compensation plans	5,699	8,372
Payments of cash dividends	(23,957)	(20,855)
Purchases of treasury stock	(80,478)	(62,701)
Net cash provided by financing activities	76,671	103,796
Effect of exchange rate changes on cash and cash equivalents	(870)	(4,473)
Change in cash and cash equivalents	17,314	24,114
Cash and cash equivalents at beginning of period	13,237	14,830
Cash and cash equivalents at end of period	$30,551	$38,944

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

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.

We own a 60% interest in Pool Systems Pty. Ltd. (PSL), an Australian company. This 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 2015 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 six month periods ended June 30, 2016 are not necessarily indicative of the expected results for our fiscal year ending December 31, 2016.

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 $6.2 million is owed as of June 30, 2016. Amounts outstanding under the credit agreement are recorded within Other assets 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 June 30, 2016, 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 $995.4 million and cumulative dividends of $342.0 million.

New Accounting Pronouncements

Upon adoption of Accounting Standards Update (ASU) 2015-03, Interest - Imputation of Interest (Subtopic 8365-30) - Simplifying the Presentation of Debt Issuance Costs, we now include financing costs, net of accumulated amortization as a component of long-term debt. For comparability across all periods presented on our Consolidated Balance Sheets, we reclassified certain amounts from Other assets, net in 2015 to Long-term debt, net to conform to our 2016 presentation.

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		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income	$85,247	$77,809	$101,610	$86,242
Net (income) loss attributable to noncontrolling interest	188	115	196	101
Net income attributable to Pool Corporation	$85,435	$77,924	$101,806	$86,343
Weighted average shares outstanding:				
Basic	42,030	43,322	42,128	43,461
Effect of dilutive securities:				
Stock options and employee stock purchase plan	1,122	1,136	1,102	1,145
Diluted	43,152	44,458	43,230	44,606
Earnings per share:				
Basic	$2.03	$1.80	$2.42	$1.99
Diluted	$1.98	$1.75	$2.35	$1.94
Anti-dilutive stock options excluded from diluted earnings per share computations	—	176	1	176

Note 3 – Acquisitions

In April 2016, we acquired the distribution assets of Metro Irrigation Supply Company Ltd., an irrigation and landscape supply company with eight locations in Texas.

In November 2015, we acquired the distribution assets of The Melton Corporation, a masonry materials and supplies distributor with one sales center location in California and one sales center location in Arizona.

In October 2015, we acquired the distribution assets of Seaboard Industries, Inc., a swimming pool supply wholesale distributor with one sales center location in Connecticut and two sales center locations in New Jersey.

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

We have completed our acquisition accounting for these acquisitions, subject to adjustments for standard holdback provisions per the terms of the purchase agreements, which are not material. These acquisitions did not have a material impact on our financial position or results of operations, either individually or in the aggregate.

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 acquisition accounting for this acquisition. This acquisition 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 recent acquisitions. 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.

The table below presents the estimated fair values of our interest rate swap contracts, our forward-starting interest rate swap contracts and our contingent consideration liabilities (in thousands):

	Fair Value at June 30,	
	2016	2015
Level 2		
Unrealized losses on interest rate swaps	$7,169	$3,430
Level 3		
Contingent consideration	$1,581	$—

Interest Rate Swaps

We utilize interest rate swap contracts and forward-starting interest rate swap contracts to reduce our exposure to fluctuations in variable interest rates for future interest payments on our unsecured syndicated senior credit facility (the Credit Facility).

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

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 loss on our Consolidated Balance Sheets. To the extent our interest rate swaps are determined to be ineffective, we recognize the changes in the estimated fair value of our swaps in earnings.

As of June 30, 2016, we have five interest rate swap contracts in effect that 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%

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 loss to Interest and other non-operating expenses, net on the Consolidated Statements of Income. These amounts were not material in the first six months of 2016 nor 2015.

We also have three forward-starting interest rate swap contracts in place that were amended in October 2015. These swaps were amended to bring the fixed rates per our forward-starting contracts in line with current market rates and extend the hedged period for future interest payments on our Credit Facility following the October 19, 2016 termination date of the swap contracts described above. Concurrent with this amendment of these contracts,we de-designated the original hedge arrangements and designated the amended forward-starting interest rate swap contracts as cash flow hedges, which become effective on October 19, 2016 and terminate on November 20, 2019. In the fourth quarter of 2015, we recognized a benefit as a result of our determination of ineffectiveness for that period. In the first quarter of 2016, these forward-starting interest rate swaps were deemed effective, and the benefit previously recognized was reversed, resulting in $0.6 million in expense. This amount was recorded in Interest and other non-operating expenses, net on our Consolidated Statements of Income. There was no benefit or expense recognized in the second quarter of 2016 as these swaps continued to be effective for the period. The following table provides additional details related to each of these amended swap contracts:

Derivative	Amendment Date	Notional Amount (in millions)	Fixed Interest Rate
Forward-starting interest rate swap 1	October 1, 2015	$75.0	2.273%
Forward-starting interest rate swap 2	October 1, 2015	$25.0	2.111%
Forward-starting interest rate swap 3	October 1, 2015	$50.0	2.111%

We are required to amortize the amounts related to the changes in the fair values of these swaps as of the de-designation date of the original forward-starting swap contracts. These unrealized losses, which are recorded in Accumulated other comprehensive loss and total $3.7 million, will be amortized over the effective period of the original forward-starting interest rate swap contracts from October 2016 to September 2018.

Failure of our swap counterparties would result in the loss of any potential benefit to us under our swap agreements. In this case, we would still be obligated to pay the variable interest payments underlying our debt agreements. Additionally, failure of our swap counterparties would not eliminate our obligation to continue to make payments under our existing swap agreements if we continue to be in a net pay position.
Our interest rate swap and forward-starting interest rate swap contracts are subject to master netting arrangements. According to our accounting policy, we do not offset the fair values of assets with the fair values of liabilities related

to these contracts. As of June 30, 2016 and June 30, 2015, each of our interest rate swap and forward-starting interest rate swap contracts was in a liability position.

Contingent Consideration

As of June 30, 2016, our Consolidated Balance Sheets reflected $0.2 million in Accrued expenses and other current liabilities and $0.7 million in Other long-term liabilities for contingent consideration related to future payouts for our acquisition of The Melton Corporation. In determining the estimate for contingent consideration, which is based on a percentage of gross profit for certain products, we applied a linear model using our best estimate of gross profit projections for fiscal years 2016 to 2020 (Level 3 inputs as defined in the accounting guidance). No adjustments to our original estimates of future payouts have been required since the acquisition date. We have determined that the contingent consideration liability was in a range of acceptable estimates as of June 30, 2016. Adjustments to the fair value of contingent consideration are recognized in earnings in the period in which we determine that the fair value changed.

As of June 30, 2016, our Consolidated Balance Sheets also reflected close to $0.1 million in Accrued expenses and other current liabilities and $0.7 million in Other long-term liabilities for contingent consideration related to future payouts for our acquisition of Metro Irrigation Supply Company Ltd. This contingent consideration is based on a multiple of gross profit for fiscal years 2016 to 2020, with a maximum total payout of $1.0 million over this time period. We determined our estimate based on a methodology similar to that used for our contingent consideration liability described above.

Other

The carrying values of cash, receivables, accounts payable and accrued liabilities approximate fair value due to the short maturity of those instruments (Level 1 inputs). For the note receivable with our variable interest entity, our determination of the estimated fair value reflects a discounted cash flow model using our estimates, including assumptions related to collectibility (Level 3 inputs). In the second quarter of 2016, we recorded a $1.5 million fair value adjustment to the note receivable based on the results of our discounted cash flow model. The carrying value of this note receivable, including adjustments, approximates fair value. The carrying value of long-term debt approximates fair value. Our determination of the estimated fair value reflects a discounted cash flow model using our estimates, including assumptions related to borrowing rates (Level 3 inputs).

Note 5 – Debt

The table below presents the components of our debt as of June 30, 2016 and June 30, 2015 (in thousands):

	June 30,	
	2016	2015
Variable rate debt		
Short-term borrowings	$6,823	$3,430
Long-term portion:		
Revolving Credit Facility	297,896	311,820
Receivables Securitization Facility	197,200	180,000
Less: financing costs, net	1,313	1,670
Long-term debt, net	493,783	490,150
Total debt	$500,606	$493,580

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. The facility has a seasonal maximum borrowing capacity of €10.0 million. We are required to pay a commitment fee, which is based on the borrowing capacity schedule. We pay this fee annually, in advance.

PSL utilizes the Australian Seasonal Credit Facility, which provides a borrowing capacity of AU$3.0 million, to supplement working capital needs during its peak season from July to March. There were no amounts outstanding under the arrangement as of June 30, 2016 or June 30, 2015.

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, net 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 1 - Summary of Significant Accounting Policies, 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 June 30, 2016.

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

	June 30, 2016
Redeemable noncontrolling interest, beginning of period	$2,665
Net loss attributable to noncontrolling interest	(196)
Other comprehensive income attributable to noncontrolling interest	42
Redeemable noncontrolling interest, end of period	$2,511

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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 2015 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 earnings and other financial performance measures, statements of management's expectations regarding our plans and objectives and industry, general economic and other 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 2015 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

Our second quarter 2016 results modestly exceeded expectations with May and June sales each surpassing $300.0 million, a first in our company's history. Net sales for the second quarter of 2016 increased 8% to $918.9 million compared to $851.9 million in the second quarter of 2015, with base business sales up 6% for the period. Our sales continue to benefit from stronger consumer discretionary spending as evidenced by our increase in sales of building materials and pool equipment, as consumers continue to invest in enhancing their outdoor living spaces. Overall, quarter over quarter weather comparisons were neutral.

Gross profit for the second quarter of 2016 increased 9% compared to the same period last year. Base business gross profit improved 7% over the second quarter of last year. Gross profit as a percentage of net sales (gross margin) increased almost 40 basis points to 29.5% compared to the second quarter of 2015, mostly reflecting improvements in our supply chain management.

Selling and administrative expenses (operating expenses) increased 8% compared to the second quarter of 2015, with base business operating expenses up 6% over the comparable 2015 period. These increases were due primarily to higher performance-based compensation recognized based on results through the second quarter compared to the same period last year, as well as higher volume-driven labor and freight expenses.

Operating income for the second quarter increased 10% compared to the same period in 2015. Operating income as a percentage of net sales (operating margin) was 15.5% for the second quarter of 2016 compared to 15.2% in the second quarter of 2015.

Net income attributable to Pool Corporation increased 10% compared to the second quarter of 2015. Earnings per share increased to a record $1.98 per diluted share for the three months ended June 30, 2016 versus $1.75 per diluted share for the comparable period in 2015.

Financial Position and Liquidity

Total net receivables, including pledged receivables, increased 10% from June 30, 2015, reflective of our June 2016 sales growth. Our allowance for doubtful accounts balance was $3.3 million at both June 30, 2016 and June 30, 2015. In recent periods we have noted lower write-offs as a percentage of net sales and a smaller percentage of total receivables being greater than 60 days past due. The decline in the reserve balance as a percentage of the asset balance reflects these trends.

Net inventory levels grew 4% compared to levels at June 30, 2015. The inventory reserve was $8.6 million at June 30, 2016 and $7.9 million at June 30, 2015. Our inventory turns, as calculated on a trailing twelve month basis, were 3.6 times at June 30, 2016 and 3.4 times at June 30, 2015.

Total debt outstanding at June 30, 2016 was $500.6 million, a $7.0 million, or 1% increase over total debt at June 30, 2015.

Current Trends and Outlook

For a detailed discussion of trends through 2015, see the Current Trends and Outlook section of Management's Discussion and Analysis included in Item 7 of our 2015 Annual Report on Form 10-K.
Over the second half of the year, we expect to generate base business sales growth rates similar to those achieved in the second quarter and we anticipate overall base business sales growth of 6% to 8% for the full year 2016. As compared to 2015, we have neutral selling days for the full year for 2016, as well as for the third quarter, but we have one less selling day in the fourth quarter. We expect that gross margin for the second half of 2016 will be in line with the gross margin for the second half of 2015.

For the year, we expect operating expenses to grow at approximately half the rate of our gross profit growth, reflecting our expense discipline, inflationary increases and incremental costs to support our sales growth expectations.

We believe our 2016 effective tax rate will be consistent with last year. 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. As a result of these factors, our total income tax provision may also fluctuate on a quarterly basis.

Factoring in all of the above variables, we increased our 2016 earnings guidance to a range of $3.30 to $3.45 per diluted share, from our previously disclosed range of $3.25 to $3.40 per diluted share. We expect cash provided by operations will approximate net income for the 2016 fiscal year. We anticipate that we may use approximately $100.0 million to $150.0 million in cash to fund share repurchases during the year. Through June 30, 2016, we have spent $77.8 million to purchase shares of our common stock on the open market.

RESULTS OF OPERATIONS

As of June 30, 2016, we conducted operations through 344 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	70.5	70.9	71.1	71.4
Gross profit	29.5	29.1	28.9	28.6
Operating expenses	14.0	14.0	16.9	17.5
Operating income	15.5	15.2	12.0	11.1
Interest and other non-operating expenses, net	0.4	0.2	0.5	0.3
Income before income taxes and equity earnings	15.1 %	14.9 %	11.5 %	10.8 %

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

We have included the results of operations from acquisitions in 2016 and 2015 in our consolidated results since the respective acquisition dates.

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

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

(Unaudited)	Base Business		Excluded		Total	
(in thousands)	Three Months Ended		Three Months Ended		Three Months Ended	
	June 30,		June 30,		June 30,	
	2016	2015	2016	2015	2016	2015
Net sales	$902,057	$851,777	$16,832	$78	$918,889	$851,855
Gross profit	265,619	248,262	5,117	(2)	270,736	248,260
Gross margin	29.4 %	29.1 %	30.4 %	(2.6)%	29.5 %	29.1 %
Operating expenses	125,701	119,087	2,615	41	128,316	119,128
Expenses as a % of net sales	13.9 %	14.0 %	15.5 %	52.6 %	14.0 %	14.0 %
Operating income (loss)	139,918	129,175	2,502	(43)	142,420	129,132
Operating margin	15.5 %	15.2 %	14.9 %	(55.1)%	15.5 %	15.2 %

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

Acquired [(1)]	Acquisition Date	Net Sales Centers Acquired	Periods Excluded
Metro Irrigation Supply Company Ltd.	April 2016	8	April - June 2016
The Melton Corporation	November 2015	2	April - June 2016
Seaboard Industries, Inc.	October 2015	3	April - June 2016
Poolwerx Development LLC	April 2015	1	April - June 2016 and April - June 2015

(1) We acquired certain distribution assets of each of these companies.

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 summarizes the changes in our sales center count during the first six months of 2016:

December 31, 2015	336
Acquired locations	8
New locations	2
Consolidated locations	(2)
June 30, 2016	344

Net Sales

(in millions)	Three Months Ended June 30, 2016	2015	Change	
Net sales	$918.9	$851.9	$67.0	8%

Net sales for the second quarter of 2016 increased 8% compared to the second quarter of 2015, with base business sales up 6% for the period. The following factors impacted our sales growth (listed in order of estimated magnitude):

- continued improvement in consumer discretionary expenditures, including some market recovery in remodeling and replacement activity as consumers invest in enhancing outdoor living spaces (see discussion below);
- market share growth, particularly in building materials and commercial product categories (see discussion below);
- increased chemical sales, our largest product category, up 6% from the same period of last year;
- inflationary (estimated at approximately 1%) product cost increases; and
- the shift of customer early buy deliveries into the first quarter of 2016 (approximately 1% negative impact on second quarter 2016 sales).

Sales of building materials and tile grew by 9% compared to the second quarter of 2015. Our sustained growth in building materials sales primarily reflects market share gains, as we continue to work with our customers and suppliers to expand our product offerings, and the partial recovery in pool remodeling. Sales of equipment including items typically installed by pool builders such as heaters, pumps, filters, chlorinators and lights, increased by 8% compared to the second quarter of 2015 reflecting both the gradual recovery of replacement activity and migration to higher-end, higher-priced, more energy-efficient products. Commercial product sales increased 18% compared to the second quarter of 2015. While this category represented only 3% of our consolidated net sales for the quarter, this growth represents our focus on serving customers in this space.

Gross Profit

(in millions)	Three Months Ended June 30, 2016	2015	Change	
Gross profit	$270.7	$248.3	$22.4	9%
Gross margin	29.5 %	29.1 %		

Gross margin for the second quarter of 2016 increased almost 40 basis points compared to the second quarter of 2015, largely reflecting improvements in our supply chain management. Strategic purchasing decisions and logistics execution factor into this improvement.

Operating Expenses

(in millions)	Three Months Ended June 30, 2016	2015	Change	
Operating expenses	$128.3	$119.1	$9.2	8%
Operating expenses as a % of net sales	14.0 %	14.0 %		

Operating expenses increased 8% in the second quarter of 2016 compared to the second quarter of 2015, with base business operating expenses up 6% compared to the same period last year. These increases were due primarily to approximately $3.8 million in higher performance based compensation recognized based on results through the second quarter compared to the same period last year, as well as higher volume-driven labor and freight expenses.

Interest and Other Non-operating Expenses, Net

Interest and other non-operating expenses, net increased $2.1 million compared to the second quarter of 2015. This increase includes a $1.5 million adjustment related to a non-operating note receivable. The remainder of the increase relates to interest expense on our borrowings. Our weighted average effective interest rate increased to 1.9% for the second quarter of 2016 from 1.8% for the second quarter of 2015 on higher average outstanding debt of $495.5 million versus $434.2 million for the respective periods.

Income Taxes

Our effective income tax rate was 38.4% for the three months ended June 30, 2016 compared to 38.9% for the three months ended June 30, 2015. The decline in our effective income tax rate is primarily the result of improved performance by our international entities and a lower impact from permanent items on the estimated higher pre-tax income base for 2016.

Net Income and Earnings Per Share

Net income attributable to Pool Corporation for the second quarter of 2016 increased 10% to $85.4 million compared to the second quarter of 2015. Earnings per diluted share increased to $1.98 for the second quarter of 2016 versus $1.75 per diluted share for the comparable period in 2015.

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

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

(Unaudited)	Base Business		Excluded		Total	
(in thousands)	Six Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015	2016	2015
Net sales	$1,412,564	$1,301,606	$21,575	$679	$1,434,139	$1,302,285
Gross profit	407,485	372,886	6,274	175	413,759	373,061
Gross margin	28.8 %	28.6 %	29.1 %	25.8 %	28.9 %	28.6 %
Operating expenses	237,604	228,028	4,205	302	241,809	228,330
Expenses as a % of net sales	16.8 %	17.5 %	19.5 %	44.5 %	16.9 %	17.5 %
Operating income (loss)	169,881	144,858	2,069	(127)	171,950	144,731
Operating margin	12.0 %	11.1 %	9.6 %	(18.7)%	12.0 %	11.1 %

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

Acquired [1]	Acquisition Date	Net Sales Centers Acquired	Periods Excluded
Metro Irrigation Supply Company Ltd.	April 2016	8	April - June 2016
The Melton Corporation	November 2015	2	January - June 2016
Seaboard Industries, Inc.	October 2015	3	January - June 2016
Poolwerx Development LLC	April 2015	1	January - June 2016 and April - June 2015
St. Louis Hardscape Material & Supply, LLC	December 2014	1	January - March 2016 and January - March 2015

(1) We acquired certain distribution assets of each of these companies.

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, 2015, please refer to page 16 under the heading Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015.

Net Sales

(in millions)	Six Months Ended June 30, 2016	2015	Change	
Net sales	$1,434.1	$1,302.3	$131.8	10%

Net sales for the first six months of 2016 increased 10% compared to the same period last year, with much of this growth resulting from the 9% improvement in base business sales. Warmer than normal weather across our seasonal markets kicked off 2016, allowing for accelerated pool openings and increased ability for customers to perform remodel, replacement and new construction activity earlier in the year. Strong execution, combined with neutral weather conditions in the second quarter and generally favorable industry conditions supported our sales growth.

The following factors contributed to our sales growth (listed in order of estimated magnitude):

- continued improvement in consumer discretionary expenditures, including some market recovery in remodeling and replacement activity (see discussion below);
- overall warmer and drier weather in most of our seasonal markets during the first quarter of 2016, contributing to chemical sales growth of 7% and double digit sales growth in our filter and automatic pool cleaner parts and accessories product categories compared to the first six months of 2015;
- market share growth, particularly in building materials and commercial product categories;
- inflationary (estimated at approximately 1%) product cost increases; and
- an additional selling day in the first quarter of 2016 compared to the first quarter of 2015 (less than 1%).

Sales of building materials and tile grew by 12% compared to the first six months of 2015. Our sustained growth in building materials primarily reflects market share gains, as we continue to work with our customers and suppliers to expand our product offerings, and the partial recovery in pool remodeling. Sales of equipment including items typically installed by pool builders such as heaters, pumps, filters, chlorinators and lights, increased by 11% compared to first half of 2015 reflecting both the gradual recovery of replacement activity and increased demand for higher-priced, more energy-efficient products. Commercial product sales, which represented less than 4% of our consolidated net sales for the first half of 2016, increased 18% compared to the first half of 2015 as we focus on serving this customer space.

Gross Profit

	Six Months Ended June 30,			
(in millions)	2016	2015	Change	
Gross profit	$413.8	$373.1	$40.7	11%
Gross margin	28.9 %	28.6 %		

Gross margin for the six months ended June 30, 2016 increased approximately 30 basis points largely benefiting from improvements in supply chain management and internal pricing initiatives as well as the favorable product mix from pool openings earlier in the year. These favorable impacts were partially offset by an increase in customer early buy deliveries, as these sales are primarily comprised of lower margin discretionary products and include applicable discounts.

Operating Expenses

	Six Months Ended June 30,			
(in millions)	2016	2015	Change	
Operating expenses	$241.8	$228.3	$13.5	6%
Operating expenses as a % of net sales	16.9 %	17.5 %		

For the first six months of 2016, operating expenses were up 6% over the same period last year, with base business operating expenses up 4%. Performance based compensation, which was up $5.1 million over 2015, and higher volume-driven labor and freight expenses accounted for this increase. By focusing on efficiencies and leveraging existing infrastructure, we were able to reduce operating expenses as a percentage of sales.

Interest and Other Non-operating Expenses, Net

Interest and other non-operating expenses, net for the first six months of 2016 increased $3.1 million compared to the same period last year. This increase includes a $1.5 million adjustment related to a non-operating note receivable. The remainder of the increase relates to interest expense on our borrowings. Our weighted average effective interest rate increased to 1.9% for the first six months of 2016 from 1.8% for the same period of 2015 on higher average outstanding debt of $442.9 million versus $389.4 million for the respective periods.

Income Taxes

Our effective income tax rate was 38.5% for the six months ended June 30, 2016 compared to 38.9% for the six months ended June 30, 2015. The decline in our effective income tax rate is primarily the result of improved performance by our international entities and a lower impact from permanent items on the estimated higher pre-tax income base for 2016.

Net Income and Earnings Per Share

Earnings per share for the first six months of 2016 increased to $2.35 per diluted share on Net income attributable to Pool Corporation of $101.8 million, compared to $1.94 per diluted share on Net income attributable to Pool Corporation of $86.3 million in the comparable 2015 period.

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 2015, we generated approximately 63% of our net sales and 90% 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 and second quarters of 2016, the four quarters of 2015, and the third and fourth quarters of 2014. 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)	QUARTER							
(in thousands)	2016		2015				2014	
	Second	First	Fourth	Third	Second	First	Fourth	Third
Statement of Income (Loss) Data								
Net sales	$918,889	$515,250	$415,075	$645,779	$851,855	$450,430	$376,442	$615,536
Gross profit	270,736	143,023	118,295	184,288	248,260	124,801	106,020	176,244
Operating income (loss)	142,420	29,530	5,979	65,512	129,132	15,599	(732)	58,457
Net income (loss)	85,247	16,363	2,579	39,403	77,809	8,433	(1,979)	34,958
Balance Sheet Data								
Total receivables, net	$351,012	283,758	$156,756	$219,774	$318,498	$238,727	$140,645	$207,165
Product inventories, net	493,254	595,393	474,275	412,587	473,362	559,260	466,962	414,331
Accounts payable	265,349	438,705	246,554	170,582	236,868	375,995	236,294	154,511
Total debt (1)	500,606	450,457	328,045	393,370	493,580	392,749	318,872	392,014

(1) For all periods presented, total debt balances have been adjusted to reflect our adoption of ASU 2015-03. For additional information, see Note 1 of “Notes to Consolidated Financial Statements,” included in Item 1 of this Form 10-Q.

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	• Increased purchases of chemicals and supplies for existing swimming pools • Increased purchases of above-ground pools and irrigation products
Unseasonably cool weather or extraordinary amounts of rain	• Fewer pool and landscape installations • Decreased purchases of chemicals and supplies • Decreased purchases of impulse items such as above-ground pools and accessories
Unseasonably early warming trends in spring/late cooling trends in fall (primarily in the northern half of the U.S. and Canada)	• A longer pool and landscape season, thus positively impacting our sales
Unseasonably late warming trends in spring/early cooling trends in fall (primarily in the northern half of the U.S. and Canada)	• A shorter pool and landscape season, thus negatively impacting our sales

Weather Impacts on 2016 and 2015 Results

Weather conditions in the second quarter of 2016 varied throughout the United States creating a neutral overall impact on our results. Although the extreme rainfall experienced in Texas and adjacent states was not as prevalent in the second quarter of 2016 as compared to 2015, Texas experienced above average precipitation yet another year. The Midwest and Northeast experienced more favorable conditions in 2016, with above average temperatures and much drier weather in June 2016 compared to June 2015; however, Florida and the Southeast experienced cooler temperatures compared to above average and record heat in certain areas last year. California and the Northwest experienced warm temperatures and normal levels of precipitation in the second quarter of both years.

Warmer than normal weather across nearly all markets in the United States benefited our first quarter of 2016 sales growth. Warmer weather early in the season accelerates pool openings and allows for increased purchases of chemicals and maintenance supplies for existing pools. By comparison, our year-round markets experienced similar favorable weather conditions in the first quarter of last year, while our seasonal markets, particularly in the northeast United States and eastern Canada, experienced cooler than normal temperatures in 2015. The unusually early warm weather in the first quarter of 2016 in our seasonal markets benefited our first quarter sales. Growth in our California markets in the first quarter of 2016 was impacted by unfavorable weather comparisons to the same period of 2015 due to higher winter precipitation and average temperatures in 2016 versus record warm temperatures in 2015.

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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);
- repayment of debt to maintain an average total leverage ratio (as defined below) between 1.5 and 2.0; and
- repurchases of our common stock under our Board authorized share repurchase program.

Over the last five years, capital expenditures have averaged roughly 1.0% of net sales. Capital expenditures were 1.0% of net sales in 2015, 0.8% of net sales in 2014 and 0.9% of sales in 2013. Going forward, we project capital expenditures will be 1.0% to 1.5% of net sales as we expand facilities and purchase delivery vehicles to address growth opportunities.

Sources and Uses of Cash

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

	Six Months Ended June 30,	
	2016	2015
Operating activities	$(13,757)	$(56,646)
Investing activities	(44,730)	(18,563)
Financing activities	76,671	103,796

Cash used in operating activities of $13.8 million improved during the first six months of 2016 compared to the first six months of 2015 primarily due to our net income growth and the deferral of our second quarter estimated tax payments as allowed for areas affected by severe storms and flooding in Louisiana.

Cash used in investing activities for the first six months of 2016 increased compared to the first six months of 2015 mostly due to our second quarter 2016 acquisition of Metro Irrigation Supply Company Ltd. as well as higher capital expenditures for vehicle additions in the first half of this year.

Cash provided by financing activities decreased between periods, which mostly reflects a $17.8 million increase in amounts used for share repurchases during the first six months of 2016 compared to the first six months of 2015.

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, 2020. We intend to use the Credit Facility for general corporate purposes, for future share repurchases and to fund future growth initiatives.

At June 30, 2016, there was $297.9 million outstanding and $163.1 million available for borrowing under the Credit Facility. We utilize interest rate swap contracts and forward-starting interest rate swap contracts to reduce our exposure to fluctuations in variable interest rates for future interest payments on the Credit Facility. As of June 30, 2016, we have five interest rate swap contracts in place. These swap contracts convert the Credit Facility's variable interest rate to fixed rates of 1.185% on two separate notional amounts of $25.0 million each, 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 swap contracts is based on the fixed rates plus the applicable margin on the Credit Facility. All five swap contracts will terminate on October 19, 2016.

We also have three forward-starting interest rate swap contracts in place that were amended in October 2015. These swaps were amended to bring the fixed rates per our forward-starting contracts in line with current market rates and extend the hedged period for future interest payments on our Credit Facility. As amended, these new swap contracts will convert the Credit Facility's variable interest rate to fixed rates of 2.273% on a notional amount of $75.0 million and 2.111% on two separate notional amounts, one $25.0 million and the other $50.0 million, totaling $75.0 million. Each of these forward-starting interest rate swap contracts becomes effective on October 19, 2016 and terminates on November 20, 2019.

The weighted average effective interest rate for the Credit Facility as of June 30, 2016 was approximately 2.0%, 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 June 30, 2016, 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 June 30, 2016, our average total leverage ratio equaled 1.54 (compared to 1.58 as of March 31, 2016) and the TTM average total debt amount used in this calculation was $416.8 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 June 30, 2016, our fixed charge ratio equaled 5.43 (compared to 5.34 as of March 31, 2016) and TTM Rental Expense was $50.9 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.

Our two-year Receivables Facility offers us a lower cost form of financing, with a peak funding capacity of up to $200.0 million between May 1 and June 30, which includes an additional seasonal funding capacity that is available between March 1 and July 31. Other funding capacities range from $55.0 million to $135.0 million throughout the remaining months of the year.

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.

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 June 30, 2016, there was $197.2 million outstanding under the Receivables Facility at a weighted average effective interest rate of 1.2%, excluding commitment fees.

As of June 30, 2016, we were in compliance with all covenants and financial ratio requirements. 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 2015 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 July 25, 2016, $144.2 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 2015 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 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, and early adoption is permitted. We have not elected to early adopt this guidance. We do not expect the adoption of ASU 2015-11 will have a material impact on our financial position, results of operations and related disclosures.

In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments, which eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. ASU 2015-16 will be effective for annual periods beginning after December 15, 2016, and early adoption is permitted. We have not elected to early adopt this guidance. We do not expect the adoption of ASU 2015-16 will have a material impact on our financial position, results of operations and related disclosures.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, which requires companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet rather than separately presenting net deferred tax assets or liabilities as current or noncurrent. Also, companies will no longer allocate valuation allowances between current and noncurrent deferred tax assets because those allowances also will be classified as noncurrent. ASU 2015-17 will be effective for annual periods beginning after December 15, 2016, and early adoption is permitted. We have not elected to early adopt this guidance. We do not expect the adoption of ASU 2015-17 will have an impact on our results of operations, but it will change the presentation of our financial position and disclosures related to deferred tax assets and liabilities.

In February 2016, the FASB issued ASU 2016-02, Leases, which requires lessees to record most leases on their balance sheets but recognize expenses in a manner similar to current guidance. ASU 2016-02 will be effective for annual periods beginning after December 15, 2018. The guidance is required to be applied using a modified retrospective approach. We are currently evaluating the effect that ASU 2016-02 will have on our financial position, results of operations and related disclosures.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This guidance requires all excess tax benefits or deficiencies to be recognized as income tax expense or benefit in the income statement, and all excess tax benefits to be classified with other income tax cash flows as operating activities. This portion of the amendment should be applied prospectively. The guidance also changes the timing of when excess tax benefits are recognized and the methods available to an entity to estimate the impact of forfeitures related to share-based awards. These two amendment topics should be applied using a modified retrospective transition method, and would require recognition of cumulative-effect adjustments to equity as of the beginning of the period in which the guidance is adopted. The guidance also classifies cash paid by an employer when directly withholding shares for tax-withholding purposes as a financing activity on the statement of cash flows. This portion of the amendment should be applied retrospectively. ASU 2016-09 will be effective for annual periods beginning after December 15, 2016. Early adoption is permitted in any interim or annual period, but we are not early adopting this guidance. We are currently evaluating the effect that ASU 2016-09 will have on our financial position, results of operations and related disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses - Measurement of Credit Losses on Financial Instruments, which changes the way companies evaluate credit losses for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking “expected loss” model to evaluate impairment, potentially resulting in earlier recognition of allowances for losses. The new standard also requires enhanced disclosures, including the requirement to disclose the information used to track credit quality by year of origination for most financing receivables. ASU 2016-09 will be effective for annual periods beginning after December 15, 2019. Early adoption is permitted for all entities for annual periods beginning after December 15, 2018. We have not elected to early adopt this guidance. The guidance must be applied using a cumulative-effect transition method. We are currently evaluating the effect that ASU 2016-13 will have 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, 2015 that affect fiscal 2016.

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, 2015 that affect fiscal 2016.

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 June 30, 2016, 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 June 30, 2016, 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
As previously disclosed, including in our Annual Report on Form 10-K for the year ended December 31, 2015, a number of purported anti-trust class action suits were filed against us in various United States District Courts in 2012. The cases were transferred and consolidated before the Judicial Panel for Multidistrict Litigation, MDL Docket No. 2328, in the Eastern District of Louisiana. The plaintiffs include indirect purchaser plaintiffs, purporting to represent indirect purchasers of swimming pool products in Arizona, California, Florida and Missouri, and direct purchaser plaintiffs, who are current or former customers. On January 27, 2016, the Court granted summary judgment in our favor on the direct purchasers' horizontal conspiracy claim. On July 1, 2016, the Court granted our motion for summary judgment on the remaining claims.
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, 2015.
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
The table below summarizes the repurchases of our common stock in the second quarter of 2016:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (2)	Maximum Approximate Dollar Value of Shares That May Yet be Purchased Under the Plan (3)
April 1-30, 2016	6,700	$ 88.92	6,700	$ 158,356,836
May 1-31, 2016	93,800	$ 87.97	93,800	$ 150,105,147
June 1-30, 2016	65,412	$ 88.24	65,412	$ 144,333,510
Total	165,912	$ 88.11	165,912	

(1) These shares may include shares of our common stock surrendered to us by employees in order to satisfy minimum 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. There were no shares surrendered for this purpose in the second quarter of 2016.

(2) In February 2016, our Board authorized an additional $150.0 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.

(3) As of July 25, 2016, $144.2 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 31.

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 July 28, 2016.

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
31.1	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			
31.2	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			
32.1	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 six months ended June 30, 2016 and June 30, 2015;
2. Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2016 and June 30, 2015;
3. Consolidated Balance Sheets at June 30, 2016, December 31, 2015 and June 30, 2015;
4. Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and June 30, 2015; and
5. Notes to Consolidated Financial Statements.