

POOL CORP  
Form 10-Q  
October 31, 2011

---

---

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, 2011

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 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

Edgar Filing: POOL CORP - Form 10-Q

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

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 21, 2011, there were 47,619,072 shares of common stock outstanding.

---

POOL CORPORATION  
Form 10-Q  
For the Quarter Ended September 30, 2011

INDEX

<b>PART I. FINANCIAL INFORMATION</b>	
<b>Item 1. Financial Statements (Unaudited)</b>	
<u>Consolidated Statements of Income</u>	1
<u>Consolidated Balance Sheets</u>	2
<u>Condensed Consolidated Statements of Cash Flows</u>	3
<u>Notes to Consolidated Financial Statements</u>	4
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	8
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	20
<u>Item 4. Controls and Procedures</u>	20
<b>PART II. OTHER INFORMATION</b>	
<u>Item 1A. Risk Factors</u>	21
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	21
<u>Item 6. Exhibits</u>	21
<u>Signature</u>	22
<u>Index to Exhibits</u>	23

---

## 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,	
	2011	2010	2011	2010
Net sales	\$ 503,584	\$ 455,020	\$ 1,522,896	\$ 1,372,320
Cost of sales	355,678	324,151	1,072,141	974,625
Gross profit	147,906	130,869	450,755	397,695
Selling and administrative expenses	106,993	93,822	311,345	279,667
Operating income	40,913	37,047	139,410	118,028
Interest expense, net	1,641	376	5,110	4,658
Income before income taxes and equity earnings	39,272	36,671	134,300	113,370
Provision for income taxes	15,126	13,902	52,377	44,044
Equity earnings in unconsolidated investments	23	15	185	117
Net income	\$ 24,169	\$ 22,784	\$ 82,108	\$ 69,443
Earnings per share:				
Basic	\$ 0.50	\$ 0.46	\$ 1.70	\$ 1.40
Diluted	\$ 0.50	\$ 0.45	\$ 1.67	\$ 1.38
Weighted average shares outstanding:				
Basic	47,987	49,615	48,357	49,442
Diluted	48,772	50,168	49,157	50,160
Cash dividends declared per common share				
	\$ 0.14	\$ 0.13	\$ 0.41	\$ 0.39

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

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

	September 30, 2011 (Unaudited)	September 30, 2010 (Unaudited)	December 31, 2010 (1)
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 20,656	\$ 32,561	\$ 9,721
Receivables, net	160,647	155,252	101,543
Product inventories, net	337,698	306,609	347,439
Prepaid expenses and other current assets	7,354	6,915	7,678
Deferred income taxes	10,145	10,662	10,211
<b>Total current assets</b>	<b>536,500</b>	<b>511,999</b>	<b>476,592</b>
Property and equipment, net	40,774	31,328	30,685
Goodwill	178,516	178,087	178,516
Other intangible assets, net	11,953	13,353	12,965
Equity interest investments	976	978	966
Other assets, net	29,493	29,304	28,821
<b>Total assets</b>	<b>\$ 798,212</b>	<b>\$ 765,049</b>	<b>\$ 728,545</b>
<b>Liabilities and stockholders' equity</b>			
<b>Current liabilities:</b>			
Accounts payable	\$ 120,221	\$ 127,995	\$ 169,700
Accrued expenses and other current liabilities	70,718	66,214	41,704
Current portion of long-term debt and other long-term liabilities	22	12,193	134
<b>Total current liabilities</b>	<b>190,961</b>	<b>206,402</b>	<b>211,538</b>
Deferred income taxes	26,549	22,178	25,593
Long-term debt	268,700	219,200	198,700
Other long-term liabilities	7,503	7,004	7,532
<b>Total liabilities</b>	<b>493,713</b>	<b>454,784</b>	<b>443,363</b>
<b>Stockholders' equity:</b>			
Common stock, \$.001 par value; 100,000,000 shares authorized; 47,594,628 and 49,687,475 shares issued and outstanding at September 30, 2011 and September 30, 2010, respectively, and	48	50	49

Edgar Filing: POOL CORP - Form 10-Q

49,381,678 shares issued and 49,278,578  
shares  
outstanding at December 31, 2010

Additional paid-in capital	236,623	214,683	218,744
Retained earnings	64,805	95,728	67,681
Treasury stock	-	-	(2,344)
Accumulated other comprehensive income (loss)	3,023	(196)	1,052
Total stockholders' equity	304,499	310,265	285,182
Total liabilities and stockholders' equity	\$ 798,212	\$ 765,049	\$ 728,545

(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)

	Nine Months Ended September 30,	
	2011	2010
<b>Operating activities</b>		
Net income	\$ 82,108	\$ 69,443
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,071	6,732
Amortization	1,243	1,827
Share-based compensation	6,143	5,912
Excess tax benefits from share-based compensation	(2,229)	(1,271)
Equity earnings in unconsolidated investments	(185)	(117)
Other	(3,892)	(7,673)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Receivables	(55,941)	(49,043)
Product inventories	10,999	55,482
Accounts payable	(49,542)	(55,586)
Other current assets and liabilities	36,199	39,536
Net cash provided by operating activities	31,974	65,242
<b>Investing activities</b>		
Acquisition of businesses, net of cash acquired	(2,961)	(4,872)
Purchase of property and equipment, net of sale proceeds	(16,959)	(6,600)
Other investments	(177)	-
Net cash used in investing activities	(20,097)	(11,472)
<b>Financing activities</b>		
Proceeds from revolving line of credit	446,649	370,639
Payments on revolving line of credit	(376,649)	(354,668)
Payments on long-term debt and other long-term liabilities	(145)	(36,160)
Payments of deferred acquisition consideration	(500)	(500)
Payments of deferred financing costs	-	(145)
Excess tax benefits from share-based compensation	2,229	1,271
Proceeds from stock issued under share-based compensation plans	9,506	4,717
Payments of cash dividends	(19,798)	(19,308)
Purchases of treasury stock	(62,842)	(1,534)
Net cash used in financing activities	(1,550)	(35,688)
Effect of exchange rate changes on cash and cash equivalents	608	(1,364)
Change in cash and cash equivalents	10,935	16,718

Edgar Filing: POOL CORP - Form 10-Q

Cash and cash equivalents at beginning of period	9,721	15,843
Cash and cash equivalents at end of period	\$ 20,656	\$ 32,561

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. The Consolidated Financial Statements include all normal and recurring adjustments that are necessary for a fair presentation of our financial position and operating results including the elimination of all significant intercompany accounts and transactions among our wholly owned subsidiaries.

A description of our significant accounting policies is included in our 2010 Annual Report on Form 10-K. You should read the 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, 2011 are not necessarily indicative of the expected results for our fiscal year ending December 31, 2011.

Note 2 – Earnings Per Share

We calculate basic earnings per share (EPS) by dividing net income 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.

The table below presents the computation of earnings per share, 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,	
	2011	2010	2011	2010
Net income	\$24,169	\$22,784	\$82,108	\$69,443
Weighted average shares outstanding:				
Basic	47,987	49,615	48,357	49,442
Effect of dilutive securities:				
Stock options and employee stock purchase plan	785	553	800	718
Diluted	48,772	50,168	49,157	50,160
Earnings per share:				
Basic	\$ 0.50	\$ 0.46	\$ 1.70	\$ 1.40
Diluted	\$ 0.50	\$ 0.45	\$ 1.67	\$ 1.38
Anti-dilutive stock options excluded from diluted earnings per share computations (1)	1,418	2,039	1,418	1,460

- (1) Since these options have exercise prices that are higher than the average market prices of our common stock, including them in the calculation would have an anti-dilutive effect on earnings per share.

## Note 3 – Comprehensive Income

The table below presents the components of comprehensive income (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	\$24,169	\$ 22,784	\$ 82,108	\$ 69,443
Foreign currency translation adjustments	(1,233)	(1,283)	608	(2,921)
Unrealized gains on interest rate swaps (1)	502	172	1,363	499
Comprehensive income	\$23,438	\$ 21,673	\$ 84,079	\$ 67,021

(1) Amounts are shown net of tax.

The table below presents the components of and changes in Accumulated other comprehensive income as of and for the nine month period ended September 30, 2011 (in thousands):

	Foreign Currency Translation	Unrealized Gains (Losses) on Interest Rate Swaps (1)	Total
Balance at December 31, 2010	\$ 3,085	\$ (2,033)	\$ 1,052
Net change	608	1,363	1,971
Balance at September 30, 2011	\$ 3,693	\$ (670)	\$ 3,023

(1) Amounts are shown net of tax.

## Note 4 – Acquisitions

In May 2011, we acquired certain distribution assets of The Kilpatrick Company, Inc. (Kilpatrick), a regional distributor of landscape and irrigation products and a provider of equipment services with four sales center locations in South Florida. We completed our preliminary acquisition accounting for Kilpatrick in the second quarter of 2011, subject to adjustments based on the terms of the asset purchase agreement within the one year measurement period. This acquisition did not have a material impact on our financial position or results of operations.

## Note 5 – Fair Value Measurements and Interest Rate Swaps

In measuring the fair value of our assets and liabilities, we use significant other observable market data or assumptions (Level 2 inputs as defined in the accounting guidance) that we believe market participants would use in pricing an asset or liability, including assumptions about risk when appropriate. Our assets and liabilities that are measured at fair value on a recurring basis include the unrealized gains or losses on our interest rate swaps.

As of September 30, 2011, we had two interest rate swap agreements in effect that reduced our exposure to fluctuations in interest rates on our Floating Rate Senior Notes (the Notes) and our \$240.0 million five-year revolving credit facility (the Previous Revolver). One interest rate swap agreement converts the variable interest rate on the Notes to a fixed rate of 5.088%. The current notional amount for this swap agreement is \$50.0 million. This swap

agreement was effective February 12, 2007 and terminates on February 12, 2012. Our other interest rate swap agreement converted the variable interest rate on the Previous Revolver to a fixed rate of 1.725% on a notional amount of \$50.0 million. This swap agreement was effective January 27, 2010 and is scheduled to terminate on January 27, 2012. We de-designated this interest rate swap when we replaced the Previous Revolver in October 2011. For additional discussion of subsequent events, see Note 6.

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 fair value of the swaps to Accumulated other comprehensive income (loss). 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.

The table below presents the estimated fair value of our swap agreements (in thousands):

Balance Sheet Line Item	Unrealized Losses at September 30,	
	2011	2010
Accrued expenses and other	\$ (1,104)	\$ )
current liabilities		(4,167)

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.

As discussed in Note 1 to the Consolidated Financial Statements in our 2010 Annual Report on Form 10-K, the carrying amount of long-term debt approximates fair value as it bears interest at variable rates.

#### Note 6 – Subsequent Events

On October 19, 2011, we entered into a new \$430.0 million unsecured syndicated senior credit facility (the New Credit Facility), along with our wholly owned subsidiaries SCP Distributors Canada Inc., as the Canadian Borrower, and SCP Pool B.V., as the Dutch Borrower. The New Credit Facility provides for increased borrowing capacity under a five-year revolving credit facility, which 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 New Credit Facility may be increased at our request and with agreement by the lenders by up to \$75.0 million, to a total of \$505.0 million. The New Credit Facility matures on October 19, 2016. The New Credit Facility replaced our amended and restated unsecured senior credit facility dated December 20, 2007, which provided for \$240.0 million in borrowing capacity through the Previous Revolver that was scheduled to mature on December 20, 2012. At closing, the New Credit Facility had an outstanding balance of \$165.9 million.

Our obligations under the New Credit Facility are guaranteed by substantially all of our existing and future direct and indirect domestic subsidiaries. The New Credit Facility contains terms and provisions (including representations, covenants and conditions) and events of default customary for transactions of this type. If an event of default occurs and is continuing under the New Credit Facility, the lenders may terminate their obligations under the New Credit Facility and may require us to repay all amounts.

Revolving borrowings under the New Credit Facility bear interest, at our option, at either of the following and in each case plus an applicable margin:

- a. a base rate, which is the highest of (i) the Wells Fargo Bank, National Association prime rate, (ii) the Federal Funds Rate plus 0.500% and (iii) the LIBOR Market Index Rate plus 1.000%; or
- b. the London Interbank Offered Rate (LIBOR).

Borrowings by the Canadian Borrower bear interest, at the Canadian Borrower's option, at either of the following and in each case plus an applicable margin:

- a. a base rate, which is the greatest of (i) the Canadian Reference Bank prime rate, (ii) the annual rate of interest equal to the sum of the CDOR Rate plus 1.000% and (iii) the LIBOR Market Index Rate plus 1.000%; or
- b. LIBOR.

Borrowings by the Dutch Borrower bear interest at LIBOR plus an applicable margin.

The interest rate margins on the borrowings and letters of credit are based on our leverage ratio and will range from 1.225% to 1.900% on LIBOR and swingline loans, and from 0.225% to 0.900% on Base Rate and Canadian Base Rate loans. Borrowings under the swingline are based on the LIBOR Market Index Rate plus any applicable margin. We are also required to pay an annual facility fee ranging from 0.150% to 0.350%, depending on our leverage ratio.

The increased borrowing capacity will be used to pay down the \$100.0 million balance on the Notes that mature in February 2012, to fund future growth initiatives and for general corporate purposes. Since we intend to repay the Notes using the increased capacity under the New Credit Facility, we reclassified the \$100.0 million balance from the Current portion of long-term debt and other long-term liabilities to Long-term debt as of September 30, 2011.

## 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 2010 Annual Report on Form 10-K. For a discussion of our base business calculations, see page 11 under the RESULTS OF OPERATIONS section.

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" 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 2010 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

Net sales for the quarter ended September 30, 2011 increased 11%, driving a strong finish to the 2011 season. Base business sales were up 9% due primarily to market share gains. Higher replacement activity attributable to the aging installed base of swimming pools, a modest improvement in consumer discretionary expenditures, the impact of inflationary product cost increases and the impact from favorable currency fluctuations also contributed to sales growth.

Gross profit for the third quarter of 2011 improved 13% from the comparable 2010 period, while gross profit as a percentage of net sales (gross margin) increased 60 basis points to 29.4%. Continued improvements in sales, pricing and purchasing discipline drove the gross margin improvement, with some favorable impact attributed to mid-year vendor price increases. Higher freight out income also contributed to the gross margin improvement and compensated for higher delivery costs.

Selling and administrative expenses (operating expenses) increased 14% in the third quarter of 2011 compared to the same period in 2010. Base business operating expenses were up 12% compared to the third quarter of 2010, with most of the increase from the impact of higher employee incentive expenses. Higher delivery costs, increased bad debt expense, the impact from currency fluctuations and increases in other variable expenses also contributed to the increase in base business operating expenses.



Third quarter operating income increased 10% over the comparable 2010 period, while operating income as a percentage of net sales (operating margin) was flat at 8.1% for the third quarter of 2011. Interest expense, net was comparatively higher due to \$1.3 million in foreign currency transaction gains recorded in the third quarter of 2010. Despite a 13% increase in average debt levels, interest expense was down slightly quarter over quarter due to a lower weighted average effective interest rate.

Net income increased 6% to \$24.2 million in the third quarter of 2011 compared to the third quarter of 2010. Earnings per share for the third quarter of 2011 increased 11% to \$0.50 per diluted share compared to \$0.45 per diluted share for the same period in 2010.

## Financial Position and Liquidity

Total net receivables increased only 3% compared to September 30, 2010 as improved customer collections partially offset the combined impact of higher September sales, a lower allowance for bad debt and balances related to recent acquisitions. Our allowance for doubtful accounts balance was \$5.2 million at September 30, 2011, a \$2.1 million decrease compared to September 30, 2010 that reflects both write-offs of certain fully reserved customer accounts and significant improvements in our receivable aging trends. The allowance for doubtful accounts has decreased approximately \$1.9 million from December 31, 2010 to September 30, 2011. Days sales outstanding (DSO) improved between periods to 30.3 days at September 30, 2011 compared to 32.2 days at September 30, 2010.

Inventory levels increased 10% to \$337.7 million at September 30, 2011 compared to levels at September 30, 2010, reflecting higher inventory replenishment levels driven by sales growth, \$5.0 million of inventories related to recent acquisitions and purchases made in advance of vendor price increases. Our inventory turns, as calculated on a trailing twelve month basis, remained flat at 3.2 times at both September 30, 2011 and September 30, 2010.

Total debt outstanding was \$268.7 million at September 30, 2011, an increase of \$37.5 million compared to September 30, 2010. On October 19, 2011, we entered into a \$430.0 million unsecured syndicated senior credit facility that replaced and refinanced the outstanding balances under our \$240.0 million unsecured revolving credit facility, which was scheduled to mature on December 20, 2012. For additional information, see discussion under the heading "Future Sources and Uses of Cash" in the LIQUIDITY AND CAPITAL RESOURCES section below.

## Current Trends and Outlook

The adverse housing and economic trends over the past several years had a significant impact on our industry, driving an approximate 80% reduction in new pool construction in the United States compared to peak levels in 2005 and also contributing to more than a 30% decline in replacement and refurbishment activities. While general external market factors including consumer confidence, employment, consumer financing and economic growth remain at depressed levels, these factors have shown some signs of improvement and we believe our 2% base business sales growth in 2010 and 10% base business sales growth in the first nine months of 2011 indicate that the declines in pool construction and pool refurbishment activities have subsided in most markets.

Trends have also improved on the irrigation side of our business, with slowly moderating sales declines in 2010 followed by 8% base business sales growth in the first nine months of 2011, including 9% growth in the third quarter attributable to favorable weather in Texas and market share gains. Since irrigation is more heavily weighted toward new construction activities and there has not been any meaningful recovery in the housing market, growth rates for this side of our business will probably continue to lag the swimming pool side of the business.

Looking ahead, we believe there is potential for a significant sales recovery due to the build-up of deferred replacement and retrofit activity and our expectation for gradually normalized new pool and irrigation construction levels. While current economic trends indicate that consumer spending may rebound slowly and that construction activities will likely remain near current depressed levels through at least the remainder of 2011 (despite pool permit increases during 2011 in many markets), we believe that we are well positioned to take advantage of both the eventual market recovery and the inherent long-term growth opportunities in our industry.

For the fourth quarter of 2011, we anticipate base business sales growth rates in the mid- to high-single digit percentages including estimated average inflationary product cost increases of roughly 2% compared to same period in 2010. This pricing inflation estimate includes the impact of 2011 mid-season vendor price increases and some other end-of-season vendor price increases, which included increases for certain chemical products that had

experienced pricing deflation throughout 2010 and much of 2011. While we believe that gross margins will continue to benefit from the factors that drove the 60 basis point improvement in the first nine months of 2011, we expect gross margins could be down by 100 or more basis points in the seasonally slower fourth quarter due to a difficult year over year comparison. In the fourth quarter of 2010, gross margin was favorably impacted by certain non-recurring vendor incentives that contributed to a 150 basis point increase compared to the fourth quarter of 2009.

The higher annual employee incentive costs for 2011 reflect the continued catch-up to more normalized levels of incentive costs following sharp declines during the 2007-2009 recession. Since we record annual employee incentive costs based largely on profits and profit growth, these expenses are recorded in our seasonally profitable second and third quarters with the majority of the expense recorded in the second quarter. As such, we anticipate that both fourth quarter 2011 and future years' base business operating expense increases will be more modest compared to the 10% increase for the first nine months of 2011. Excluding the impacts of fuel price changes on delivery costs and currency fluctuations, we expect year over year base business operating expense growth will be approximately 2% to 3% for the next several quarters.

Based on our year to date results and these expectations for the fourth quarter, we increased our full year 2011 earnings guidance to a projected range of \$1.43 to \$1.47 per diluted share compared to our previous guidance of \$1.38 to \$1.45 per diluted share. We expect cash provided by operations will approximate net income for fiscal 2011.

Due to the impact of higher annual employee incentive costs discussed above, we now expect our 2011 base business operating profit growth as a percentage of base business sales growth (contribution margin) to be less than 20%, although we believe achieving a 20% contribution margin is a realistic goal for the next several years.

## RESULTS OF OPERATIONS

As of September 30, 2011, we conducted operations through 296 sales centers in North America and Europe.

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,	
	2011	2010	2011	2010
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	70.6	71.2	70.4	71.0
Gross profit	29.4	28.8	29.6	29.0
Operating expenses	21.2	20.6	20.4	20.4
Operating income	8.1	8.1	9.2	8.6
Interest expense, net	0.3	0.1	0.3	0.3
Income before income taxes and equity earnings	7.8%	8.1%	8.8%	8.3%

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

Our discussion of consolidated operating results includes the operating results from acquisitions in 2011 and 2010. We have included the results of operations in our consolidated results since the respective acquisition dates.

Edgar Filing: POOL CORP - Form 10-Q

Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010

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

(Unaudited)	Base Business		Excluded		Total	
(In thousands)	Three Months Ended		Three Months		Three Months Ended	
	September 30,		Ended		September 30,	
	2011	2010	2011	2010	2011	2010
Net sales	\$497,464	\$454,781	\$ 6,120	\$ 239	\$503,584	\$455,020
Gross profit	146,083	130,788	1,823	81	147,906	130,869
Gross margin	29.4%	28.8%	29.8%	33.9%	29.4%	28.8%
Operating expenses	105,046	93,663	1,947	159	106,993	93,822
Expenses as a % of net sales	21.1%	20.6%	31.8%	66.5%	21.2%	20.6%
Operating income (loss)	41,037	37,125	(124)	(78)	40,913	37,047
Operating margin	8.2%	8.2%	(2.0)%	(32.6)%	8.1%	8.1%

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
The Kilpatrick Company, Inc. (1)	May 2011	4	July 2011 – September 2011
Turf Equipment Supply Co. (1)	December 2010	3	July 2011 – September 2011
Pool Boat and Leisure, S.A. (1)	December 2010	1	July 2011 – September 2011

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

As of September 30, 2011, the base business results also exclude one new market sales center that opened in the second quarter of 2011 and one existing sales center that was consolidated into an acquired sales center in May 2011.

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 centers in the first nine months of 2011:

December 31, 2010	291
-------------------	-----

Edgar Filing: POOL CORP - Form 10-Q

Acquired	4
Opened (1)	4
Consolidated	(3)
September 30, 2011	296

(1) Includes two new sales centers in Florida, one new sales center in Puerto Rico and one sales center in Oregon that reopened (a previous SCP network location that closed in December 2007 and has operated within a Horizon network sales center since then).

## Net Sales

(in millions)	Three Months Ended September 30,		Change	
	2011	2010		
Net sales	\$ 503.6	\$ 455.0	\$48.6	11%

Base business sales growth accounted for 9% of the sales increase compared to the third quarter of 2010, with just over 9% growth on the swimming pool side of the business and just under 9% growth on the irrigation side of the business. The principal driver of base business growth was market share gains, which were attributed to continued improvements in customer service levels, benefits from our focus on the building materials product segment and retail customer segment of our industry and further expansion of our product offerings. Other factors contributing to the sales growth included the following (listed in order of estimated magnitude):

- higher replacement activity attributable to the aging installed base of swimming pools;
- the impact of inflationary product cost increases (estimated at approximately 2%);
- a modest improvement in consumer discretionary expenditures compared to the restrained levels experienced in 2010; and
- approximately 1% growth from favorable currency fluctuations.

## Gross Profit

(in millions)	Three Months Ended September 30,		Change	
	2011	2010		
Gross profit	\$ 147.9	\$ 130.9	\$17.0	13%
Gross margin	29.4%	28.8%		

Gross margin increased 60 basis points between periods due to the following:

- improvements in sales, pricing and purchasing discipline, including a continued migration of sales to higher margin preferred vendor and Pool Corporation branded products and some benefit attributed to the impact of mid-year vendor price increases implemented by some vendors;
- a favorable impact of approximately 20 basis points attributed to a third quarter cumulative catch-up adjustment for estimated vendor incentives earned (based on higher than projected sales growth, our estimated annual purchase volumes increased compared to our second quarter estimate);
- a favorable impact of 12 basis points related to higher freight out income, which compensated for higher delivery costs included in operating expenses.

## Operating Expenses

(in millions)	Three Months Ended September 30,		Change	
	2011	2010		
Operating expenses	\$ 107.0	\$ 93.8	\$13.2	14%
Operating expenses as a % of net sales		%		
	21.2	20.6%		

Operating expenses were up 14% compared to the third quarter of 2010, including a 12% increase in base business operating expenses due primarily to the following:

- a \$6.3 million increase in employee incentive costs;
- a \$0.8 million increase in delivery costs, including higher delivery volumes and higher fuel costs;
- \$0.8 million of bad debt expense, which reflects a normalized expense level compared to the third quarter of 2010 when we recorded no bad debt expense due to significantly better than expected customer collections;
  - a \$0.8 million impact from currency fluctuations; and
  - other variable expenses, which increased along with our base business sales growth.



## Interest Expense, net

Interest expense, net was comparatively higher due to \$1.3 million in foreign currency transaction gains recorded in the third quarter of 2010. Despite a 13% increase in average debt levels, interest expense was down slightly quarter over quarter due to a decrease in the weighted average effective interest rate from 2.4% for the third quarter of 2011 from 3.0% for the third quarter of 2010.

## Income Taxes

Our effective income tax rate was 38.52% for the three months ended September 30, 2011, up from 37.91% for the three months ended September 30, 2010. The effective rates for both periods reflect the impact of changes in the estimated annual provisions for income taxes, with the changes due primarily to the true-up of permanent tax differences in 2011 and the expiration of the statute of limitations on certain state tax returns in 2010.

## Net Income and Earnings Per Share

Net income increased to \$24.2 million in the third quarter of 2011 from \$22.8 million in the third quarter of 2010. Earnings per share was \$0.50 per diluted share for the third quarter of 2011 compared to \$0.45 per diluted share for the same period in 2010, an increase of 11% quarter over quarter. This increase included an accretive impact of approximately \$0.02 per diluted share from the reduction in our weighted average shares outstanding due to our share repurchase activities in the fourth quarter of 2010 and the first nine months of 2011.

## Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010

The following table breaks out our consolidated results into the base business component and the excluded components (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,	
	2011	2010	2011	2010	2011	2010
Net sales	\$1,501,733	\$1,366,901	\$21,163	\$5,419	\$1,522,896	\$1,372,320
Gross profit	444,594	396,045	6,161	1,650	450,755	397,695
Gross margin	29.6%	29.0%	29.1%	30.4%	29.6%	29.0%
Operating expenses	304,965	278,500	6,380	1,167	311,345	279,667
Expenses as a % of net sales	20.3%	20.4%	30.1%	21.5%	20.4%	20.4%
Operating income (loss)	139,629	117,545	(219)	483	139,410	118,028
Operating margin	9.3%	8.6%	(1.0)%	8.9%	9.2%	8.6%



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
The Kilpatrick Company, Inc. (1)	May 2011	4	May 2011 – September 2011
Turf Equipment Supply Co. (1)	December 2010	3	January 2011 – September 2011
Pool Boat and Leisure, S.A. (1)	December 2010	1	January 2011 – September 2011
Les Produits de Piscine Metrinnox Inc.	April 2010	2	January 2011 – June 2011 and April 2010 – June 2010

(1) We acquired certain distribution assets 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, 2010, please refer to page 11 under the heading “Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010”.

#### Net Sales

(in millions)	Nine Months Ended September 30,			Change
	2011	2010		
Net sales	\$1,522.9	\$1,372.3	\$150.6	11%

Net sales for the first nine months of 2011 increased 11% compared to same period in 2010, including a 10% increase in base business sales and a 1% increase related to our recent acquisitions and new sales centers. Our base business sales growth included a 10% increase on the swimming pool side of the business and an 8% increase on the irrigation side of the business. We realized more moderate sales growth rates in the second and third quarters of 2011 compared to the 15% base business sales growth rate realized in the first quarter of 2011, which had easier sales comparisons to the same period in 2010 and benefited from much more favorable weather conditions across most of the sunbelt markets compared to the first quarter of 2010.

Favorable base business sales comparisons to the first nine months of 2010 also reflect the factors that contributed to the sales growth in the third quarter as discussed on page 12 under the subheading “Net Sales”. One example of our success in achieving market share gains is the 17% year to date sales growth for our building materials product segment, which includes tile and specialty pool finish products. The impact of double digit sales growth rates for products related to replacement and remodel activity was partially offset by lower growth rates for maintenance and repair products. Chemical sales grew 3% year to date despite the unfavorable impact of some price deflation.

#### Gross Profit

Nine Months Ended  
September 30,

Edgar Filing: POOL CORP - Form 10-Q

(in millions)	2011	2010	Change	
Gross profit	\$ 450.8	\$ 397.7	\$53.1	13%
Gross margin	29.6%	29.0%		

Gross margin increased 60 basis points between periods, including increases of 90 basis points in the seasonally slower first quarter, 50 basis points in the second quarter and 60 basis points in the third quarter of 2011. The majority of the improvement in the first quarter was due to an easier comparison to the first quarter of 2010 when our gross margin was down 110 basis points from the first quarter of 2009. The year to date improvement also reflects the factors that contributed to the gross margin expansion in the third quarter of 2011 (as discussed on page 12 under the subheading “Gross Profit”) and a more normalized competitive pricing environment in some markets compared to the past few years when our industry contracted.

## Operating Expenses

(in millions)	Nine Months Ended		Change	
	September 30,			
	2011	2010		
Operating expenses	\$ 311.3	\$ 279.7	\$31.6	11%
Operating expenses as a	%			
% of net sales	20.4	20.4%		

Total operating expenses increased 11% compared to the first nine months of 2010, including a 10% increase in base business operating expenses. This increase was primarily due to higher variable expenses driven by base business sales growth, including a \$13.6 million increase in employee incentive costs and a \$3.0 million increase in delivery costs, which also reflected higher fuel costs. The comparatively higher employee incentive costs reflects both our strong 2011 financial results and the continued catch-up to more normalized levels of incentive costs following sharp declines during the 2007-2009 recession.

As discussed above on page 12 under the subheading “Operating Expenses”, other expense increases were attributed to the impact of currency fluctuations (\$2.1 million year to date) and the comparatively higher bad debt expense (\$1.8 million year to date), which includes the impact of an adjustment recorded in the second quarter of 2010 that reduced the allowance for doubtful accounts.

## Interest Expense, net

Interest expense, net increased due to the impact of \$1.5 million in foreign currency transaction gains recorded during the first nine months of 2010. However, interest expense related to borrowings declined approximately \$1.1 million in the first nine months of 2011 due to a lower weighted average effective interest rate on slightly higher average debt levels compared to the same period in 2010.

## Income Taxes

Our effective income tax rate was 39.00% for the nine months ended September 30, 2011 and 38.85% for the nine months ended September 30, 2010. There were no significant changes in our estimates related to our income tax provision.

## Net Income and Earnings Per Share

Net income increased 18% to \$82.1 million in the first nine months of 2011, while earnings per share increased 21% to \$1.67 per diluted share compared to \$1.38 per diluted share for the first nine months of 2010. This increase included an accretive impact of approximately \$0.06 per diluted share from the reduction in our weighted average shares outstanding due to our share repurchase activities in the fourth quarter of 2010 and the first nine months of 2011.

## 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 2010, approximately 68% of our net sales and over 100% of our operating income were generated 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 2011, the four quarters of 2010 and the fourth quarter of 2009. 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)	QUARTERS							
	2011				2010			
	Third	Second	First	Fourth	Third	Second	First	Fourth
Statement of Income (Loss) Data								
Net sales	\$ 503,584	\$ 706,423	\$ 312,889	\$ 241,426	\$ 455,020	\$ 647,467	\$ 269,833	\$ 231,032
Gross profit	147,906	211,439	91,410	73,567	130,869	190,534	76,292	67,069
Operating income (loss)	40,913	97,921	576	(16,783)	37,047	88,869	(7,888)	(21,776)
Net income (loss)	24,169	58,577	(638)	(11,805)	22,784	52,770	(6,111)	(13,606)
Balance Sheet Data								
Receivables, net	\$ 160,647	\$ 266,032	\$ 173,787	\$ 101,543	\$ 155,252	\$ 238,638	\$ 157,568	\$ 96,364
Product inventories, net	337,698	389,763	438,791	347,439	306,609	331,537	382,380	355,528
Accounts payable	120,221	247,904	303,395	169,700	127,995	221,374	251,590	178,391
Total debt	268,700	306,049	280,157	198,700	231,200	266,131	278,150	248,700

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 US 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 US and Canada)	<ul style="list-style-type: none"> <li>• A shorter pool and landscape season, thus negatively impacting our sales</li> </ul>

Our first quarter 2010 sales were negatively impacted by unfavorable weather conditions across the Sunbelt markets between January and mid-March, including record cold weather in Florida and much colder than average temperatures across the rest of the Southeast. In the first quarter of 2011, our sales benefited from much more favorable weather conditions in these markets and higher sales in North Texas and Oklahoma markets attributed to repair and replacement activity for freeze damaged pool equipment.

Our second quarter 2010 sales benefited from generally favorable weather conditions compared to the second quarter of 2009, including record or near record high temperatures across the eastern half of the United States and our markets in Canada. While our sales in the second quarter of 2011 also benefited from above average temperatures across the Southeast, a slow start to the pool season in the Midwest due to record precipitation levels and closer to average temperatures across the Northeast resulted in some unfavorable comparisons to the same period in 2010. On the West Coast, weather impacts were unfavorable in both the second quarter of 2010 and 2011 due to much colder than average temperatures.

In the third quarter of 2011, we estimate that the weather impact on sales was neutral overall compared to both the same period in 2010 and long-term averages. While third quarter sales benefited from favorable weather conditions in the Southwest, including record high temperatures in Texas, sales were adversely impacted by cooler than average temperatures on the West Coast during the third quarter and below average temperatures in September across the Midwest and parts of the Southeast.



## 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 bank 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);
- repurchase of common stock at Board-defined parameters; and
- repayment of debt.

While historically our capital expenditures have averaged 0.5% to 0.75% of net sales, they were below and at the bottom of this range between 2008 and 2010 due to lower capacity expansion. Going forward, we project capital expenditures will average approximately 1.0% of net sales since we now purchase rather than lease new vehicles and forklifts.

### Sources and Uses of Cash

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

	Nine Months Ended September 30,	
	2011	2010
Operating activities	\$ 31,974	\$ 65,242
Investing activities	(20,097)	(11,472)
Financing activities	(1,550)	(35,688)

The decrease in cash provided by operating activities reflects the impact of comparatively higher inventory balances in 2011, which was partially offset by the increase in net income between periods. The increase in cash used in investing activities compared to the first nine months of 2010 reflects higher capital expenditures, which included a few large information technology upgrade projects and an impact of approximately \$5.7 million related to purchasing rather than leasing new vehicles and forklifts in 2011. We expect capital expenditures will be approximately 1.0% of net sales for the full year. Cash used in financing activities for the first nine months of 2011 reflects \$70.0 million of net debt borrowings, which funded our 2011 share repurchase activities.

## Future Sources and Uses of Cash

On October 19, 2011, we entered into a new unsecured syndicated senior credit facility (the New Credit Facility) that provides for increased borrowing capacity of up to \$430.0 million under a revolving credit facility. The New Credit Facility replaced our amended and restated unsecured senior credit facility (the Previous Credit Facility) dated December 20, 2007, which provided for \$240.0 million in borrowing capacity through a five-year revolving credit facility that was scheduled to mature on December 20, 2012.

The New Credit Facility 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 New Credit Facility may be increased at our request and with agreement by the lenders by up to \$75.0 million, to a total of \$505.0 million. At October 19, 2011, the New Credit Facility had an outstanding balance of \$165.9 million. The New Credit Facility matures on October 19, 2016. For additional information regarding the New Credit Facility, see Note 6 of “Notes to Consolidated Financial Statements,” included in Item 1 of this Form 10-Q.

On February 12, 2007, we issued and sold \$100.0 million aggregate principal amount of Floating Rate Senior Notes (the Notes) in a private placement offering pursuant to a Note Purchase Agreement. The Notes are due February 12, 2012 and accrue interest on the unpaid principal balance at a floating rate equal to a spread of 0.600% over three-month LIBOR, as adjusted from time to time. In February 2007, we entered into an interest rate swap agreement to reduce our exposure to fluctuations in interest rates on the Notes. The swap agreement converts the Notes’ variable interest rate to a fixed rate of 5.088% on the current notional amount of \$50.0 million. The weighted average effective interest rate on the Notes was approximately 3.3% for the nine months ended September 30, 2011. We intend to use the New Credit Facility to pay off the Notes balance at maturity.

Financial covenants on the Previous Credit Facility and the Notes were closely aligned and included a minimum fixed charge coverage ratio and maintenance of a maximum total leverage ratio. The New Credit Facility has the same minimum fixed charge coverage ratio and maximum total leverage ratio covenants, which remain our most restrictive financial covenants. As of September 30, 2011, 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 our Previous Credit Facility). As of September 30, 2011, our average total leverage ratio equaled 1.77 (compared to 1.75 as of June 30, 2011) and the TTM average total debt amount used in this calculation was \$249.9 million.
- **Minimum Fixed Charge 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 (as defined in our Previous Credit Facility) divided by TTM Interest Expense (as defined in our Previous Credit Facility) paid or payable in cash plus TTM Rental Expense (as defined in our Previous Credit Facility). As of September 30, 2011, our fixed charge ratio equaled 3.19 (compared to 3.13 as of June 30, 2011) and TTM Rental Expense was \$54.3 million.

The New 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 New Credit Facility), provided no default or event of default has occurred and is continuing, or would result from the payment of dividends, and the dividends are declared and paid in a manner consistent with our past practice. Under the New 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 New Credit Facility could result in penalty payments, higher interest rates on our borrowings or the acceleration of the maturities of our outstanding debt. As of September 30, 2011, 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 rest of the year.

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.

In May 2011, the Board authorized a new \$100.0 million share repurchase program. As of October 21, 2011, \$79.5 million of the authorized amount under this program remained available. We may continue 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 New Credit Facility.

### CRITICAL ACCOUNTING ESTIMATES

We prepare our Consolidated Financial Statements in accordance with U.S. generally accepted accounting principles (GAAP), which requires 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 of Directors. For a description of our critical accounting estimates that require us to make the most difficult, subjective or complex judgments, please see our Annual Report on Form 10-K for the year ended December 31, 2010. We have not changed these policies from those previously disclosed.

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

#### Interest Rate Risk

There have been no material changes from what we reported in our Form 10-K for the year ended December 31, 2010 that affect fiscal 2011.

#### Foreign Exchange Risk

There have been no material changes from what we reported in our Form 10-K for the year ended December 31, 2010.

### 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 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, 2011, 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, 2011, 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 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, 2010.

## 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 2011:

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)
July 1-31, 2011	20,200	\$ 27.36	20,200	\$ 98,775,879
August 1-31, 2011	544,717	\$ 25.23	544,717	\$ 85,032,323
September 1-30, 2011	195,371	\$ 24.69	195,371	\$ 80,208,962
Total	760,288	\$ 25.15	760,288	

(1) 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 and/or the exercise price of such options granted under our share-based compensation plans. There were no shares surrendered for this purpose in the third quarter of 2011.

(2) In May 2011, our Board authorized a new \$100.0 million 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. This program replaced our previous share repurchase program.

(3) As of October 21, 2011, \$79.5 million of the authorized amount remained available under our new share repurchase program.

## Item 6. Exhibits

Exhibits filed or furnished as part of this report are listed in the Index to Exhibits appearing on page 23.





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 31, 2011.

POOL CORPORATION

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

## Index to Exhibits

No.	Description	Filed or Furnished with this Form	Incorporated by Reference		
			10-Q	Form	File No.
3.1	Restated Certificate of Incorporation of the Company.		10-Q	000-26640	08/09/2006
3.2	Restated Composite Bylaws of the Company.		10-Q	000-26640	08/09/2006
4.1	Form of certificate representing shares of common stock of the Company.		8-K	000-26640	05/19/2006
<u>10.1</u>	Credit Agreement dated as of October 19, 2011, among Pool Corporation, as US Borrower, SCP Distributors Canada Inc., as Canadian Borrower, SCP Pool B.V., as Dutch Borrower, the Lenders, Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender, JPMorgan Chase Bank, N.A., as Syndication Agent, Wells Fargo Securities, LLC and J.P. Morgan Securities, LLC, as joint Lead Arrangers and joint Bookrunners, Bank of America, N.A., Regions Bank and Capital One, N.A., as Documentation Agents, and Branch Banking and Trust Company, Comerica Bank and Union Bank, N.A.	ü			
<u>10.2</u>	Subsidiary Guaranty Agreement dated as of October 19, 2011.	ü			
<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.	ü			
<u>31.2</u>	Certification by Manuel J. Perez de la Mesa pursuant to	ü			

	Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	
<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.	ü
101.INS +	XBRL Instance Document	ü
101.SCH +	XBRL Taxonomy Extension Schema Document	ü
101.CAL +	XBRL Taxonomy Extension Calculation Linkbase Document	ü
101.DEF +	XBRL Taxonomy Extension Definition Linkbase Document	ü
101.LAB +	XBRL Taxonomy Extension Label Linkbase Document	ü
101.PRE +	XBRL Taxonomy Extension Presentation Linkbase Document	ü

+ 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, 2011 and September 30, 2010;
2. Consolidated Balance Sheets at September 30, 2011, September 30, 2010 and December 31, 2010;
3. Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and September 30, 2010; and
4. Notes to Consolidated Financial Statements.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q is furnished and shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing

