

SCP POOL CORP
Form 10-Q
May 05, 2006

**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 March 31, 2006

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

SCP POOL CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware

36-3943363

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(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

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 x NO "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer x Accelerated Filer " Non-accelerated filer "

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

At April 24, 2006, there were 52,943,968 outstanding shares of the registrant's common stock, \$.001 par value per share.

SCP POOL CORPORATION
Form 10-Q
For the Quarter Ended March 31, 2006

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended March 31,	
	2006	2005
		(As Adjusted - See Note 5)
Net sales	\$ 348,556	\$ 265,161
Cost of sales	250,508	193,210
Gross profit	98,048	71,951
Selling and administrative expenses	83,026	61,695
Operating income	15,022	10,256
Interest expense, net	2,851	1,080

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	Three Months Ended	
Income before income taxes and equity losses	12,171	9,176
Provision for income taxes	4,699	3,592
Equity losses in unconsolidated investments	(1,050)	(1,482)
	<u> </u>	<u> </u>
Net income	\$ 6,422	\$ 4,102
	<u> </u>	<u> </u>
Earnings per share:		
Basic	\$ 0.12	\$ 0.08
	<u> </u>	<u> </u>
Diluted	\$ 0.12	\$ 0.07
	<u> </u>	<u> </u>
Weighted average shares outstanding:		
Basic	52,593	52,273
	<u> </u>	<u> </u>
Diluted	55,443	55,477
	<u> </u>	<u> </u>
Cash dividends declared per common share	\$ 0.09	\$ 0.07

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

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

	March 31, 2006	March 31, 2005	December 31, 2005
	<u> </u>	<u> </u>	<u> </u>
		(As Adjusted - See Note 5)	(As Adjusted - See Note 5)
Assets			
Current assets:			
Cash and cash equivalents	\$ 5,964	\$ 14,565	\$ 26,866
Receivables, net	42,988	33,646	42,809
Receivables pledged under receivables facility	168,590	130,861	98,976
Product inventories, net	406,310	281,267	330,575
Prepaid expenses	5,193	3,841	5,190
Deferred income taxes	3,970	2,570	7,977
	<u> </u>	<u> </u>	<u> </u>
Total current assets	633,015	466,750	512,393
Property and equipment, net	27,884	20,087	25,598
Goodwill	142,177	104,687	139,546
Other intangible assets, net	18,955	11,723	22,838

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	March 31,	March 31,	December 31,
Equity interest investments	28,182	17,134	29,907
Other assets, net	15,413	10,570	15,098
Total assets	\$ 865,626	\$ 630,951	\$ 745,380
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	\$ 267,296	\$ 219,290	\$ 174,170
Accrued and other current liabilities	51,827	23,038	76,645
Short-term financing	80,275	57,665	65,657
Current portion of other long-term liabilities	2,100	1,350	1,350
Total current liabilities	401,498	301,343	317,822
Deferred income taxes	12,786	11,624	14,600
Long-term debt	155,163	82,914	129,100
Other long-term liabilities	2,174	3,116	2,134
Total liabilities	571,621	398,997	463,656
Stockholders' equity:			
Common stock, \$.001 par value; 100,000,000 shares authorized; 52,880,856, 52,482,002 and 52,414,883 shares issued and outstanding at March 31, 2006, March 31, 2005 and December 31, 2005, respectively	52	52	52
Additional paid-in capital	133,860	102,409	119,770
Retained earnings	157,370	126,716	160,684
Treasury stock	--	(45)	(921)
Accumulated other comprehensive income	2,723	2,822	2,139
Total stockholders' equity	294,005	231,954	281,724
Total liabilities and stockholders' equity	\$ 865,626	\$ 630,951	\$ 745,380

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

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

**Three Months Ended
March 31,**

2006 2005

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Three Months Ended
(As Adjusted
- See Note 5)

Operating activities		
Net income	\$ 6,422	\$ 4,102
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	1,860	1,216
Amortization	1,328	937
Share-based compensation	2,145	1,385
Excess tax benefits from share-based compensation	(8,236)	(4,261)
Equity losses in unconsolidated investments	1,725	1,482
Other	(1,578)	(741)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Receivables	(69,638)	(66,706)
Product inventories	(76,348)	(85,750)
Accounts payable	93,145	106,176
Other current assets and liabilities	(11,484)	(8,807)
Net cash used in operating activities	<u>(60,659)</u>	<u>(50,967)</u>
Investing activities		
Acquisition of businesses, net of cash acquired	(1,446)	(2)
Purchase of property and equipment, net of sale proceeds	(3,408)	(2,772)
Net cash used in investing activities	<u>(4,854)</u>	<u>(2,774)</u>
Financing activities		
Proceeds from revolving line of credit	71,213	77,378
Payments on revolving line of credit	(44,400)	(44,884)
Proceeds from asset-backed financing	23,622	19,835
Payments on asset-backed financing	(9,004)	(4,765)
Payments on other long-term debt	(23)	(23)
Payments of deferred financing costs	(18)	(11)
Payments of capital lease obligations	(257)	--
Excess tax benefits from share-based compensation	8,236	4,261
Issuance of common stock under stock option plans	3,709	1,495
Payment of cash dividends	(4,750)	(3,672)
Purchase of treasury stock	(4,071)	(3,024)
Net cash provided by financing activities	<u>44,257</u>	<u>46,590</u>
Effect of exchange rate changes on cash	<u>354</u>	<u>(46)</u>
Change in cash and cash equivalents	(20,902)	(7,197)
Cash and cash equivalents at beginning of period	<u>26,866</u>	<u>21,762</u>
Cash and cash equivalents at end of period	<u>\$ 5,964</u>	<u>\$ 14,565</u>

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

SCP POOL CORPORATION
Notes to Consolidated Financial Statements
(Unaudited)

Note 1 Summary of Significant Accounting Policies

SCP Pool Corporation (the *Company*, which may be referred to as *POOL, we, us or our*) prepared the unaudited interim consolidated financial statements following accounting principles generally accepted in the United States (GAAP) and the requirements of the Securities and Exchange Commission (SEC) for interim financial information. As permitted under those rules, certain footnotes or other financial information required by GAAP for complete financial statements have been condensed or omitted. In management's opinion, the financial statements include all normal and recurring adjustments that are considered necessary for the 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 2005 Annual Report on Form 10-K. The consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes in our Annual Report. The results for the three month period ended March 31, 2006 are not necessarily indicative of the results to be expected for the twelve months ending December 31, 2006.

On January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) 123(R), *Share-Based Payments*. We have selected a Black-Scholes-Merton option valuation model for estimating the grant date fair value of share-based payments under SFAS 123(R) and we have elected to use the modified-retrospective transition method. We have adjusted all prior period financial statements to reflect compensation cost for the amounts previously reported in our pro-forma footnote disclosures required by SFAS 123, as corrected for immaterial amounts of compensation cost associated with our employee stock purchase plan. Please see Note 5 for additional information.

Reclassifications

We have reclassified the payment of deferred financing costs and the related non-cash amortization of these amounts in our 2005 Condensed Consolidated Statements of Cash Flows to conform to the 2006 presentation. The non-cash amortization was reclassified within the operating activities section to the amortization line item. Additionally, deferred financing costs have been reclassified as a use of cash from financing activities. Previously, we classified these amounts as a change in prepaid and other assets. These reclassifications had no effect on net income or earnings per share as previously reported.

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. Diluted EPS includes the dilutive effects of stock and option awards.

SCP POOL CORPORATION
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

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

Three Months Ended March 31,

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	2006	2005
Net income	\$ 6,422	\$ 4,102
Weighted average common shares outstanding:		
Basic	52,593	52,273
Effect of dilutive securities:		
Stock options	2,818	3,183
Restricted stock awards	30	20
Employee stock purchase plan	2	1
Diluted	55,443	55,477
Basic earnings per share		