

POOL CORP
Form 10-Q
July 31, 2015

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

FORM 10-Q

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

For the quarterly period ended June 30, 2015

or

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

For the transition period from _____ to _____

Commission File Number: 0-26640

POOL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

70433-5001
(Zip Code)

985-892-5521

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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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 July 24, 2015, there were 42,931,725 shares of common stock outstanding.

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

POOL CORPORATION

Consolidated Statements of Income

(Unaudited)

(In thousands, except per share data)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------|------------------|-------------|
| | June 30, | | June 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Net sales | \$851,855 | \$848,240 | \$1,302,285 | \$1,254,584 |
| Cost of sales | 603,595 | 601,264 | 929,224 | 893,508 |
| Gross profit | 248,260 | 246,976 | 373,061 | 361,076 |
| Selling and administrative expenses | 119,128 | 124,477 | 228,330 | 229,931 |
| Operating income | 129,132 | 122,499 | 144,731 | 131,145 |
| Interest expense, net | 1,900 | 1,894 | 3,895 | 3,827 |
| Income before income taxes and equity earnings | 127,232 | 120,605 | 140,836 | 127,318 |
| Provision for income taxes | 49,493 | 46,796 | 54,785 | 49,400 |
| Equity earnings in unconsolidated investments | 70 | 54 | 191 | 133 |
| Net income | 77,809 | 73,863 | 86,242 | 78,051 |
| Add: net loss attributable to noncontrolling interest | 115 | — | 101 | — |
| Net income attributable to Pool Corporation | \$77,924 | \$73,863 | \$86,343 | \$78,051 |
| Earnings per share: | | | | |
| Basic | \$1.80 | \$1.65 | \$1.99 | \$1.74 |
| Diluted | \$1.75 | \$1.61 | \$1.94 | \$1.69 |
| Weighted average shares outstanding: | | | | |
| Basic | 43,322 | 44,769 | 43,461 | 44,972 |
| Diluted | 44,458 | 45,971 | 44,606 | 46,160 |
| Cash dividends declared per common share | \$0.26 | \$0.22 | \$0.48 | \$0.41 |

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, 2015 | 2014 | June 30, 2015 | 2014 |
| Net income | \$ 77,809 | \$ 73,863 | \$ 86,242 | \$ 78,051 |
| Other comprehensive (loss) income: | | | | |
| Foreign currency translation adjustments | (982) | 392 | (5,690) | (455) |
| Change in unrealized gains and losses on interest rate swaps, net of tax of \$(116), \$213, \$447 and \$139 | 182 | (334) | (746) | (218) |
| Total other comprehensive (loss) income | (800) | 58 | (6,436) | (673) |
| Comprehensive income | 77,009 | 73,921 | 79,806 | 77,378 |
| Add: comprehensive loss attributable to noncontrolling interest | 145 | — | 347 | — |
| Comprehensive income attributable to Pool Corporation | \$ 77,154 | \$ 73,921 | \$ 80,153 | \$ 77,378 |

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

POOL CORPORATION

Consolidated Balance Sheets

(In thousands, except share data)

| | June 30, 2015 (Unaudited) | June 30, 2014 (Unaudited) | December 31, 2014 ⁽¹⁾ |
|---|---------------------------------|---------------------------------|-------------------------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 38,944 | \$ 27,563 | \$ 14,830 |
| Receivables, net | 93,709 | 97,527 | 51,014 |
| Receivables pledged under receivables facility | 224,789 | 208,973 | 89,631 |
| Product inventories, net | 473,362 | 451,507 | 466,962 |
| Prepaid expenses and other current assets | 11,226 | 10,055 | 11,659 |
| Deferred income taxes | 3,104 | 5,416 | 3,117 |
| Total current assets | 845,134 | 801,041 | 637,213 |
| Property and equipment, net | 65,151 | 57,275 | 56,475 |
| Goodwill | 172,815 | 173,800 | 173,924 |
| Other intangible assets, net | 11,643 | 10,725 | 11,995 |
| Equity interest investments | 1,328 | 1,263 | 1,244 |
| Other assets, net | 15,511 | 11,344 | 12,086 |
| Total assets | \$ 1,111,582 | \$ 1,055,448 | \$ 892,937 |
| Liabilities, redeemable noncontrolling interest and stockholders' equity | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 236,868 | \$ 233,549 | \$ 236,294 |
| Accrued expenses and other current liabilities | 80,480 | 89,200 | 54,085 |
| Short-term borrowings and current portion of long-term debt and other long-term liabilities | 3,430 | — | 1,529 |
| Total current liabilities | 320,778 | 322,749 | 291,908 |
| Deferred income taxes | 23,642 | 19,979 | 23,504 |
| Long-term debt | 491,820 | 430,971 | 319,309 |
| Other long-term liabilities | 13,837 | 10,432 | 10,751 |
| Total liabilities | 850,077 | 784,131 | 645,472 |
| Redeemable noncontrolling interest | 2,766 | — | 3,113 |
| Stockholders' equity: | | | |
| Common stock, \$0.001 par value; 100,000,000 shares authorized; 42,930,905, 44,133,304 and 43,511,093 shares issued and outstanding at June 30, 2015, June 30, 2014 and December 31, 2014, respectively | 43 | 44 | 44 |
| Additional paid-in capital | 356,410 | 325,415 | 338,620 |
| Retained deficit | (87,862) |) (56,381 |) (90,650 |
| Accumulated other comprehensive (loss) income | (9,852) |) 2,239 | (3,662 |
| Total stockholders' equity | 258,739 | 271,317 | 244,352 |

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| | | | |
|--|--------------|--------------|------------|
| Total liabilities, redeemable noncontrolling interest and stockholders' equity | \$ 1,111,582 | \$ 1,055,448 | \$ 892,937 |
|--|--------------|--------------|------------|

(1) Derived from audited financial statements.

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

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POOL CORPORATION

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

| | Six Months Ended | |
|---|------------------|-----------|
| | June 30, | |
| | 2015 | 2014 |
| Operating activities | | |
| Net income | \$ 86,242 | \$ 78,051 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation | 7,687 | 7,021 |
| Amortization | 532 | 696 |
| Share-based compensation | 4,850 | 4,657 |
| Excess tax benefits from share-based compensation | (4,568) | (3,920) |
| Equity earnings in unconsolidated investments | (191) | (133) |
| Other | 1,339 | 2,982 |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | |
| Receivables | (177,193) | (180,075) |
| Product inventories | (7,849) | (21,936) |
| Prepaid expenses and other assets | 4 | (1,350) |
| Accounts payable | 487 | 18,065 |
| Accrued expenses and other current liabilities | 32,014 | 45,054 |
| Net cash used in operating activities | (56,646) | (50,888) |
| Investing activities | | |
| Acquisition of businesses, net of cash acquired | (479) | (4,612) |
| Purchase of property and equipment, net of sale proceeds | (16,200) | (11,921) |
| Payments to fund credit agreement | (5,350) | — |
| Collections from credit agreement | 3,407 | — |
| Other investments, net | 59 | 96 |
| Net cash used in investing activities | (18,563) | (16,437) |
| Financing activities | | |
| Proceeds from revolving line of credit | 526,116 | 457,218 |
| Payments on revolving line of credit | (466,005) | (380,665) |
| Proceeds from asset-backed financing | 128,400 | 121,600 |
| Payments on asset-backed financing | (16,000) | (13,600) |
| Proceeds from short-term borrowings, long-term debt and other long-term liabilities | 4,110 | — |
| Payments on short-term borrowings, long-term debt and other long-term liabilities | (2,209) | — |
| Excess tax benefits from share-based compensation | 4,568 | 3,920 |
| Proceeds from stock issued under share-based compensation plans | 8,372 | 6,335 |
| Payments of cash dividends | (20,855) | (18,410) |
| Purchases of treasury stock | (62,701) | (88,745) |
| Net cash provided by financing activities | 103,796 | 87,653 |
| Effect of exchange rate changes on cash and cash equivalents | (4,473) | (771) |
| Change in cash and cash equivalents | 24,114 | 19,557 |
| Cash and cash equivalents at beginning of period | 14,830 | 8,006 |
| Cash and cash equivalents at end of period | \$ 38,944 | \$ 27,563 |

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

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POOL CORPORATION

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 – Summary of Significant Accounting Policies

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

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

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

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

Reclassifications

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

Variable Interest Entity

In February 2015, we entered into a five-year credit agreement with a swimming pool retailer. Under this agreement and the related revolving note, we are the primary lender of operating funds for this entity. The total lending commitment under the credit agreement is \$8.5 million, of which \$3.2 million was outstanding as of June 30, 2015. Amounts outstanding under the credit agreement are recorded within Other assets, net on our Consolidated Balance Sheets and are collateralized by essentially all of the assets of the business. We have a variable interest in this entity; however, we have no decision-making authority over its activities through voting or other rights. Additionally, we have no obligation to absorb any of its losses, nor do we have the right to receive any residual returns, should either occur. We are not considered the primary beneficiary of this variable interest entity, and therefore we are not required to consolidate this entity's financial statements.

Retained Deficit

We account for the retirement of treasury shares as a reduction of retained earnings (deficit). As of June 30, 2015, the Retained deficit on our Consolidated Balance Sheets reflects cumulative net income, the cumulative impact of adjustments for changes in accounting pronouncements, treasury share retirements since the inception of our share repurchase programs of \$878.4 million and cumulative dividends of \$295.7 million.

Note 2 – Earnings Per Share

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

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

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|----------|------------------|----------|
| | June 30, | | June 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Net income | \$77,809 | \$73,863 | \$86,242 | \$78,051 |
| Add: net loss attributable to noncontrolling interest | 115 | — | 101 | — |
| Net income attributable to Pool Corporation | \$77,924 | \$73,863 | \$86,343 | \$78,051 |
| Weighted average shares outstanding: | | | | |
| Basic | 43,322 | 44,769 | 43,461 | 44,972 |
| Effect of dilutive securities: | | | | |
| Stock options and employee stock purchase plan | 1,136 | 1,202 | 1,145 | 1,188 |
| Diluted | 44,458 | 45,971 | 44,606 | 46,160 |
| Earnings per share: | | | | |
| Basic | \$1.80 | \$1.65 | \$1.99 | \$1.74 |
| Diluted | \$1.75 | \$1.61 | \$1.94 | \$1.69 |
| Anti-dilutive stock options excluded from diluted earnings per share computations | 176 | — | 176 | 169 |

Note 3 – Acquisitions

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

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

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

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

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

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

Note 4 – Fair Value Measurements and Interest Rate Swaps

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

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

Level 2 Inputs to the valuation methodology include:

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

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

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

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

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

Interest Rate Swaps

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

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

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

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

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

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

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

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

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

| | Fair Value at | |
|--|---------------|----------|
| | June 30, | |
| Level 2 | 2015 | 2014 |
| Unrealized gains on interest rate swaps | \$— | \$ 19 |
| Unrealized losses on interest rate swaps | (3,430 |) (2,086 |

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

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

Contingent Consideration

As of June 30, 2015, we no longer have a contingent consideration liability recorded for the PSL acquisition. As of March 31, 2015, our Consolidated Balance Sheets reflected \$0.2 million in Accrued expenses and other current liabilities for our estimate of a potential future payout for the PSL acquisition. In determining this estimate, we applied an income approach using a probability-weighted model of possible outcomes based on our estimates of fiscal 2015 earnings for PSL (Level 3 inputs as defined in the accounting guidance). Based on PSL's preliminary earnings for fiscal 2015, we determined that a payout would no longer be required. We recognized this adjustment to the fair value of contingent consideration in earnings during the second quarter of 2015.

Other

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

Note 5 – Debt

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

| | June 30, 2015 | 2014 |
|-------------------------------------|------------------|------------|
| Variable rate debt | | |
| Short-term borrowings | \$ 3,430 | \$— |
| Long-term debt | | |
| Revolving Credit Facility | 311,820 | 270,971 |
| Receivables Securitization Facility | 180,000 | 160,000 |
| Total debt | \$ 495,250 | \$ 430,971 |

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.

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

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 EURIBOR, plus a fixed margin. We also pay a commitment fee on the borrowing capacity of €5 million. This fee is paid annually in advance.

Note 6 – Redeemable Noncontrolling Interest

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

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

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

| | June 30, 2015 | |
|--|---------------|---|
| Redeemable noncontrolling interest, beginning of period | \$3,113 | |
| Net loss attributable to noncontrolling interest | (101 |) |
| Other comprehensive loss attributable to noncontrolling interest | (246 |) |
| Redeemable noncontrolling interest, end of period | \$2,766 | |

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

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

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

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

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

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

OVERVIEW

Financial Results

We successfully managed through the challenge of adverse weather conditions in a number of our significant markets to realize 9% diluted earnings per share growth for the second quarter and 15% year to date. Weather is the most important external factor impacting our business in any given year. Excessive rain primarily impacted the renovation and construction business and caused lost workdays. As such, many customers have a larger than normal backlog, as a result of the rain and saturated ground, which caused further delays. Cooler than normal temperatures in northeastern and north central markets during the critical June selling period resulted in delayed pool openings, lower equipment usage and lessened demand for chemicals. Conversely, in markets where weather was normal, our results met or exceeded our expectations. Although our international business experienced growth in local currencies, when translated into U.S. dollars, it negatively impacted our consolidated sales growth rates due to the nearly 20% appreciation of the U.S. dollar relative to most international currencies since this time last year.

Net sales for the second quarter of 2015 were \$851.9 million compared to \$848.2 million in the second quarter of 2014, with base business sales flat for the period. The decline in foreign currency exchange rates relative to the U.S. dollar negatively impacted our consolidated sales growth rate by approximately 2% period over period. Record amounts of precipitation in Texas and adjacent states significantly impacted our second quarter sales, delaying construction projects and reducing spending on related discretionary products. Cooler than normal temperatures in the Midwest and the Northeast delayed pool openings and inhibited sales growth in these markets. Combined, these weather conditions negatively impacted our second quarter 2015 sales by approximately 2%. The shift of customer early buy shipments into the first quarter of 2015 also led to nearly a 1% decrease in sales for the second quarter of 2015 compared to the same period in 2014.

Gross profit for the second quarter of 2015 increased 1% compared to the same period last year. Gross profit as a percentage of net sales (gross margin) was 29.1% in both the second quarter of 2015 and 2014.

Selling and administrative expenses (operating expenses) decreased 4% compared to the second quarter of 2014, with base business operating expenses down 6% for the period. Of the total decline in operating expenses, 2% relates to a reduction in performance based employee compensation. The stronger U.S. dollar relative to foreign currencies also favorably impacted our operating expenses by approximately 2%.

Operating income for the quarter increased 5% compared to the same period in 2014. Operating income as a percentage of net sales (operating margin) was 15.2% for the second quarter of 2015 compared to 14.4% in the second quarter of 2014. The unfavorable impact of foreign currency fluctuations from the strengthening of the U.S. dollar on consolidated operating income is an estimated \$2.2 million, which includes the comparison of our foreign subsidiaries' second quarter 2015 local currency operating income translated at historical second quarter 2014 exchange rates, to their reported second quarter 2014 U.S. dollar operating income.

Net income attributable to Pool Corporation increased 5% compared to the second quarter of 2014. Earnings per share was a record \$1.75 per diluted share for the three months ended June 30, 2015 versus \$1.61 per diluted share for the comparable period in 2014. We estimate a \$0.03 negative impact on earnings per share in the quarter versus the comparable 2014 period, due to the impact of the stronger U.S. dollar on the translation of foreign currency denominated earnings.

Financial Position and Liquidity

Total net receivables, including pledged receivables, increased 4% from June 30, 2014. Our receivables quality remains high, yet continues to improve, as our total accounts receivable greater than 30 days past due at June 30, 2015 declined to 1.4% of total accounts receivable compared to 1.8% as of June 30, 2014. Our allowance for doubtful accounts balance was \$3.3 million at June 30, 2015 compared to \$4.4 million at June 30, 2014, reflecting improved collections of our past due accounts.

Net inventory levels increased 5% to \$473.4 million at June 30, 2015. The inventory reserve was \$7.9 million at June 30, 2015 and \$8.5 million at June 30, 2014. Our inventory turns, as calculated on a trailing twelve month basis, were 3.4 times at June 30, 2015 compared to 3.5 times at June 30, 2014.

Total debt outstanding of \$495.3 million at June 30, 2015 increased 15% compared to June 30, 2014 primarily due to timing differences in the inventory purchase and payment cycle.

Current Trends and Outlook

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

With the first half of 2015 behind us, we expect sales growth of approximately 3% for the full year, including an estimated 2% continuing adverse impact from currency translation. Significant rainfall in Texas and adjacent states for most of April and May as well as cooler than normal temperatures brought on by heavy precipitation in the Midwest and the Northeast in June negatively impacted our second quarter results. While we expect a rebound in our year-round markets due to pent up demand, the lost sales in our seasonal markets are reflected in our revised annual sales forecast. We continue to expect the full year 2015 gross margin to be relatively flat compared to 2014.

Overall, we anticipate operating expenses will grow no more than half the rate of our gross profit growth in 2015, reflecting modest inflationary increases, offset by lower performance-based employee compensation expense and lower expenses from our international subsidiaries when translated into the stronger U.S. dollar.

For the full year 2015, we project our effective income tax rate will approximate 39.0%. Our effective tax rate is dependent upon our results of operations and may change if actual results are different from our current expectations, particularly any significant changes in our geographic mix. Our total income tax provision may also fluctuate on a quarterly basis.

Based on 2015 results to date, we have narrowed our annual earnings guidance range to \$2.72 to \$2.82 per diluted share, compared to our previous range of \$2.72 to \$2.87 per diluted share. We expect cash provided by operations will be in line with net income for fiscal 2015 and anticipate that we may use approximately \$100.0 million in cash to fund share repurchases for the year.

RESULTS OF OPERATIONS

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

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

| | Three Months Ended | | Six Months Ended | | |
|--|--------------------|---------|------------------|---------|---|
| | June 30, | | June 30, | | |
| | 2015 | 2014 | 2015 | 2014 | |
| Net sales | 100.0 | % 100.0 | % 100.0 | % 100.0 | % |
| Cost of sales | 70.9 | 70.9 | 71.4 | 71.2 | |
| Gross profit | 29.1 | 29.1 | 28.6 | 28.8 | |
| Operating expenses | 14.0 | 14.7 | 17.5 | 18.3 | |
| Operating income | 15.2 | 14.4 | 11.1 | 10.5 | |
| Interest expense, net | 0.2 | 0.2 | 0.3 | 0.3 | |
| Income before income taxes and equity earnings | 14.9 | % 14.2 | % 10.8 | % 10.1 | % |

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

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

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

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

| (Unaudited) (in thousands) | Base Business | | Excluded | | Total | | | |
|-------------------------------|--------------------------------|------------|--------------------------------|----------|--------------------------------|------------|---|---|
| | Three Months Ended June 30, | | Three Months Ended June 30, | | Three Months Ended June 30, | | | |
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | | |
| Net sales | \$ 847,263 | \$ 846,511 | \$ 4,592 | \$ 1,729 | \$ 851,855 | \$ 848,240 | | |
| Gross profit | 246,683 | 246,392 | 1,577 | 584 | 248,260 | 246,976 | | |
| Gross margin | 29.1 | % 29.1 | % 34.3 | % 33.8 | % 29.1 | % 29.1 | % | % |
| Operating expenses | 117,205 | 124,139 | 1,923 | 338 | 119,128 | 124,477 | | |
| Expenses as a % of net sales | 13.8 | % 14.7 | % 41.9 | % 19.5 | % 14.0 | % 14.7 | % | % |
| Operating income (loss) | 129,478 | 122,253 | (346) |) 246 | 129,132 | 122,499 | | |
| Operating margin | 15.3 | % 14.4 | % (7.5) |)% 14.2 | % 15.2 | % 14.4 | % | % |

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

| Acquired | Acquisition Date | Net Sales Centers Acquired | Periods Excluded |
|---|---------------------|----------------------------------|--|
| Poolwerx Development LLC ⁽¹⁾ | April 2015 | 1 | April - June 2015 |
| St. Louis Hardscape Material & Supply, LLC ^{(1) (2)} | December 2014 | 1 | April - June 2015 |
| Pool Systems Pty. Ltd. | July 2014 | 3 | April - June 2015 |
| DFW Stone Supply, LLC ⁽¹⁾ | March 2014 | 2 | April - May 2015 and April - May 2014 |
| Atlantic Chemical & Aquatics Inc. ⁽¹⁾ | February 2014 | 2 | April 2015 and April 2014 |

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

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

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

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

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

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

| | |
|------------------------|-----|
| December 31, 2014 | 328 |
| Acquired locations | 2 |
| New locations | 1 |
| Consolidated locations | — |
| June 30, 2015 | 331 |

Net Sales

| (in millions) | Three Months Ended | | | Change | —% |
|---------------|--------------------|----------|--------|--------|----|
| | June 30, 2015 | 2014 | | | |
| Net sales | \$ 851.9 | \$ 848.2 | \$ 3.7 | | —% |

Net sales for the second quarter of 2015 were in line with the second quarter of 2014, with base business sales flat for the period. Unfavorable foreign currency fluctuations, challenging weather conditions, and the shift of increased customer early buy shipments into the first quarter of 2015 all impacted our sales growth.

The following factors adversely impacted our sales growth during the quarter (listed in order of estimated magnitude):

- the strengthening of the U.S. dollar relative to most foreign exchange rates, which negatively impacted our consolidated sales by approximately 2%;
- record rainfall in Texas and adjacent states, which delayed construction projects and reduced spending on related discretionary products, coupled with unusually cool temperatures in the Midwest and the Northeast, which delayed pool openings and inhibited the related non-discretionary spending in these markets, which combined had an estimated unfavorable impact of approximately 2%; and
- the shift of customer early buy shipments into the first quarter of 2015, causing close to a 1% decrease in sales for the second quarter of 2015.

In markets where weather was normal, our results met or exceeded our expectations. Continued improvement in consumer discretionary expenditures, including some market recovery in remodeling and replacement activity, mitigated the drag on our sales growth rates created by weather and foreign currency translation. Sales of building materials and tile grew by 9% compared to the second quarter of 2014. Collectively, these products accounted for approximately 10% of our total sales for the quarter. Sales of equipment, which includes heaters, pumps, lighting and filters, increased by 5% compared to the second quarter of 2014. Chemical sales increased by 3% despite delayed pool openings in markets with cooler than normal weather.

Gross Profit

| (in millions) | Three Months Ended | | | Change | 1% |
|---------------|--------------------|----------|--------|--------|----|
| | June 30, 2015 | 2014 | | | |
| Gross profit | \$ 248.3 | \$ 247.0 | \$ 1.3 | | 1% |
| Gross margin | 29.1 | % 29.1 | % | | |

Gross margin for the second quarter of 2015 was flat compared to the second quarter of 2014.

Operating Expenses

| (in millions) | Three Months Ended | | | Change |
|--|--------------------|----------|---------|--------|
| | June 30, | | | |
| | 2015 | 2014 | | |
| Operating expenses | \$ 119.1 | \$ 124.5 | \$ (5.4 |) (4)% |
| Operating expenses as a % of net sales | 14.0 | % 14.7 | % | |

Operating expenses decreased 4% in the second quarter of 2015 compared to the second quarter of 2014, with base business operating expenses down 6% for the period. Performance-based employee compensation declined approximately \$3.0 million and contributed to 2% of our operating expense decline compared to the same period last year, based on our second quarter 2015 results relative to our full year earnings projections. The stronger U.S. dollar relative to foreign currencies also favorably impacted our operating expenses by approximately 2%.

Interest Expense, Net

Interest expense, net was consistent with the second quarter of 2014. Our weighted average effective interest rate decreased to 1.8% for the second quarter of 2015 from 1.9% for the second quarter of 2014 on higher average outstanding debt of \$434.2 million versus \$366.9 million for the respective periods.

Income Taxes

Our effective income tax rate was 38.9% for the three months ended June 30, 2015 compared to 38.8% for the three months ended June 30, 2014.

Net Income and Earnings Per Share

Net income attributable to Pool Corporation for the second quarter of 2015 increased 5% to \$77.9 million compared to the second quarter of 2014. Earnings per diluted share was \$1.75 for the second quarter of 2015, an increase of \$0.14, or 9%, per diluted share over the same period of 2014. We estimate a \$0.03 negative impact on earnings per share in the quarter versus the comparable 2014 period, due to the impact of the stronger U.S. dollar on the translation of foreign currency denominated earnings.

Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014

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

| (Unaudited) (in thousands) | Base Business | | Excluded | | Total | |
|-------------------------------|------------------------------|--------------|------------------------------|----------|------------------------------|--------------|
| | Six Months Ended June 30, | | Six Months Ended June 30, | | Six Months Ended June 30, | |
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Net sales | \$ 1,292,138 | \$ 1,252,518 | \$ 10,147 | \$ 2,066 | \$ 1,302,285 | \$ 1,254,584 |
| Gross profit | 369,322 | 360,356 | 3,739 | 720 | 373,061 | 361,076 |
| Gross margin | 28.6 | % 28.8 | % 36.8 | % 34.8 | % 28.6 | % 28.8 |
| Operating expenses | 223,910 | 229,439 | 4,420 | 492 | 228,330 | 229,931 |
| Expenses as a % of net sales | 17.3 | % 18.3 | % 43.6 | % 23.8 | % 17.5 | % 18.3 |
| Operating income (loss) | 145,412 | 130,917 | (681) | 228 | 144,731 | 131,145 |
| Operating margin | 11.3 | % 10.5 | % (6.7) | % 11.0 | % 11.1 | % 10.5 |

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

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

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

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

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

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

Net Sales

| (in millions) | Six Months Ended | | |
|---------------|------------------|------------|------------|
| | June 30, 2015 | 2014 | Change |
| Net sales | \$ 1,302.3 | \$ 1,254.6 | \$ 47.7 4% |

Net sales for the first six months of 2015 increased 4% compared to the same period last year. After sales exhibited a strong start in the first quarter, weather took a turn for the worse in the second quarter in several important markets. The strengthening of the U.S. dollar relative to foreign currencies also adversely impacted our consolidated sales during the first half of the year. In local currencies, our international business generated an estimated 8% aggregate sales growth rate year to date, but when translated into U.S. dollars, our international business negatively impacted our consolidated sales growth rates. Strong demand for discretionary replacement and remodel products in markets that experienced normal weather somewhat offset these challenges.

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

- the strengthening of the U.S. dollar relative to most foreign exchange rates, which negatively impacted our consolidated sales by approximately 2%;
- record rainfall in Texas and adjacent states, which delayed construction projects and reduced spending on related discretionary products; and
- unusually cool temperatures in the Midwest and the Northeast, which delayed pool openings and inhibited the related non-discretionary spending in these markets.

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

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

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

Gross Profit

| (in millions) | Six Months Ended | | | Change | |
|---------------|------------------|----------|---------|--------|--|
| | 2015 | 2014 | | | |
| Gross profit | \$ 373.1 | \$ 361.1 | \$ 12.0 | 3% | |
| Gross margin | 28.6 | % 28.8 | % | | |

Gross margin for the six months ended June 30, 2015 declined approximately 15 basis points compared to the same period last year. Although a positive impact on our sales, the increase in customer early buy shipments negatively impacted gross margin, as these sales are primarily sold in bulk quantities and include applicable discounts. Excluding these impacts, gross margin was basically flat compared to the first six months of 2014.

Operating Expenses

Six Months Ended
June 30,

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| (in millions) | 2015 | 2014 | Change |
|--|---------|---------|---------------|
| Operating expenses | \$228.3 | \$229.9 | \$(1.6) (1)% |
| Operating expenses as a % of net sales | 17.5 | % 18.3 | % |

Operating expenses declined 1% in the first six months of 2015 compared to the same period in 2014, with base business operating expenses down 2%. The stronger U.S. dollar relative to foreign currencies favorably impacted our year to date operating expenses by approximately 2%.

Interest Expense, Net

Interest expense, net for the first six months of 2015 increased 2% compared to the same period last year. Our weighted average effective interest rate decreased to 1.8% for the first six months of 2015 from 2.0% for the same period of 2014 on higher average outstanding debt of \$389.4 million versus \$322.6 million for the respective periods. The decrease in our effective interest rate compared to last year reflects the utilization of available borrowing capacity on our Receivables Facility at lower interest rates than under our Credit Facility.

Income Taxes

Our effective income tax rate was 38.9% for the six months ended June 30, 2015, consistent with the rate of 38.8% for the six months ended June 30, 2014.

Net Income and Earnings Per Share

Earnings per share for the first six months of 2015 increased 15% to \$1.94 per diluted share on Net income attributable to Pool Corporation of \$86.3 million, compared to \$1.69 per diluted share on Net income attributable to Pool Corporation of \$78.1 million in the comparable 2014 period. We estimate a \$0.03 negative impact on earnings per share for the six months ended June 30, 2015 versus the comparable 2014 period, due to the impact of the stronger U.S. dollar on the translation of foreign currency denominated earnings.

Seasonality and Quarterly Fluctuations

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

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

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

| (Unaudited) (in thousands) | QUARTER | | | | | | | |
|-------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | 2015 | | 2014 | | 2013 | | 2013 | |
| | Second | First | Fourth | Third | Second | First | Fourth | Third |
| Statement of Income | | | | | | | | |
| (Loss) Data | | | | | | | | |
| Net sales | \$ 851,855 | \$ 450,430 | \$ 376,442 | \$ 615,536 | \$ 848,240 | \$ 406,344 | \$ 340,789 | \$ 578,157 |
| Gross profit | 248,260 | 124,801 | 106,020 | 176,244 | 246,976 | 114,100 | 95,793 | 162,557 |
| Operating income (loss) | 129,132 | 15,599 | (732) | 58,457 | 122,499 | 8,646 | (6,814) | 53,375 |
| Net income (loss) | 77,809 | 8,433 | (1,979) | 34,958 | 73,863 | 4,188 | (4,975) | 32,332 |
| Balance Sheet Data | | | | | | | | |
| Total receivables, net | \$ 318,498 | \$ 238,727 | \$ 140,645 | \$ 207,165 | \$ 306,500 | \$ 211,107 | \$ 125,287 | \$ 180,898 |
| Product inventories, net | 473,362 | 559,260 | 466,962 | 414,331 | 451,507 | 527,304 | 429,197 | 365,596 |
| Accounts payable | 236,868 | 375,995 | 236,294 | 154,511 | 233,549 | 370,002 | 214,596 | 142,777 |
| Total debt | 495,250 | 394,559 | 320,838 | 393,738 | 430,971 | 324,226 | 246,418 | 260,432 |

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

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

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

Sources and Uses of Cash

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

| | Six Months Ended | |
|----------------------|------------------|-------------|
| | June 30, | |
| | 2015 | 2014 |
| Operating activities | \$(56,646 |) \$(50,888 |
| Investing activities | (18,563 |) (16,437 |
| Financing activities | 103,796 | 87,653 |

Cash used in operating activities during the first six months of 2015 increased compared to the first six months of 2014 and primarily relates to timing differences in our payables cycle.

Cash used in investing activities for the first six months of 2015 reflects \$5.4 million in payments to fund the revolving note under the credit agreement, which we entered into as a lender in 2015, and an additional \$4.3 million of capital expenditures, offset by a decline in acquisitions payments of \$4.1 million. For additional information regarding the revolving note, see Note 1 of our “Notes to Consolidated Financial Statements” included in Item 1 of this Form 10-Q.

The increase in cash provided by financing activities between periods primarily reflects a decrease in cash used for share repurchases of \$26.0 million, offset by a \$10.1 million decrease in cash provided by net borrowings compared to last year.

Future Sources and Uses of Cash

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

At June 30, 2015, there was \$311.8 million outstanding and \$149.2 million available for borrowing under the Credit Facility. We currently have five interest rate swap contracts in place that reduce our exposure to fluctuations in variable interest rates for future interest payments on the Credit Facility. These swap contracts convert the Credit Facility's variable interest rate to fixed rates of 1.185% on notional amounts totaling \$50.0 million, 1.100% on a notional amount of \$50.0 million, 1.050% on a notional amount of \$25.0 million and 0.990% on a notional amount of \$25.0 million. Interest expense related to the notional amounts under these swaps is based on the fixed rates plus the applicable margin on the Credit Facility. All five swap contracts will terminate on October 19, 2016.

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

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

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

Maximum Average Total Leverage Ratio. On the last day of each fiscal quarter, our average total leverage ratio must be less than 3.25 to 1.00. Average Total Leverage Ratio is the ratio of the trailing twelve months (TTM) Average Total Funded Indebtedness plus the TTM Average Accounts Securitization Proceeds divided by the TTM EBITDA (as those terms are defined in the Credit Facility). As of June 30, 2015, our average total leverage ratio equaled 1.70 (compared to 1.68 as of March 31, 2015) and the TTM average total debt amount used in this calculation was \$386.9 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, 2015, our fixed charge ratio equaled 4.88 (compared to 4.76 as of March 31, 2015) and TTM Rental Expense was \$49.4 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 \$140.0 million between May 1 and June 30 and other funding capacities of up to \$70.0 million between October 1 and February 28 and up to \$120.0 million between March 1 and April 30 and between July 1 and September 30. An additional seasonal borrowing capacity of up to \$40.0 million may be available between April 1 and July 31. 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, 2015, there was \$180.0 million outstanding under the Receivables Facility at a weighted average effective interest rate of 0.9%, excluding commitment fees.

As of June 30, 2015, we were in compliance with all covenants and financial ratio requirements in our Credit Facility and our Receivables Facility. We believe we will remain in compliance with all covenants and financial ratio requirements throughout the rest of the year. For additional information regarding our debt arrangements, see Note 5 of “Notes to Consolidated Financial Statements,” included in Item 8 of our 2014 Annual Report on Form 10-K.

We believe we have adequate availability of capital to fund present operations and the current capacity to finance any working capital needs that may arise. We continually evaluate potential acquisitions and hold discussions with acquisition candidates. If suitable acquisition opportunities arise that would require financing, we believe that we have the ability to finance any such transactions.

As of July 24, 2015, \$106.8 million of the current Board authorized amount under our share repurchase program remained available. We expect to repurchase additional shares on the open market from time to time depending on market conditions. We plan to fund these repurchases with cash provided by operations and borrowings under the credit and receivables facilities.

CRITICAL ACCOUNTING ESTIMATES

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

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

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

Recent Accounting Pronouncements

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

or cumulative effect transition method. We are currently evaluating the effect that ASU 2014-09 will have on our financial position, results of operations and related disclosures.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

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

Currency Risk

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

Item 4. Controls and Procedures

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

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

| 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, 2015 | 45,096 | \$ 67.87 | 45,096 | \$ 58,827,228 |
| May 1-31, 2015 | 509,654 | \$ 66.81 | 509,594 | \$ 124,780,526 |
| June 1-30, 2015 | 253,838 | \$ 67.74 | 253,838 | \$ 107,584,895 |
| Total | 808,588 | \$ 67.16 | 808,528 | |

These shares may include shares of our common stock surrendered to us by employees in order to satisfy tax withholding obligations in connection with certain exercises of employee stock options or lapses upon vesting of (1) 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 60 shares surrendered for this purpose in the second quarter of 2015.

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

(3) As of July 24, 2015, \$106.8 million of the authorized amount remained available under our current share repurchase program.

Item 6. Exhibits

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

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on July 31, 2015.

POOL CORPORATION

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

INDEX TO EXHIBITS

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

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

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