

POOL CORP  
Form 10-Q  
August 02, 2010

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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, 2010

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 during

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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   
filer

Accelerated

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

At July 23, 2010, there were 49,576,718 outstanding shares of the registrant's common stock, \$.001 par value per share.

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POOL CORPORATION  
Form 10-Q  
For the Quarter Ended June 30, 2010

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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,	
	2010	2009	2010	2009
Net sales	\$ 647,467	\$ 602,082	\$ 917,300	\$ 878,708
Cost of sales	456,933	424,014	650,474	619,447
Gross profit	190,534	178,068	266,826	259,261
Selling and administrative expenses	101,665	96,348	185,845	181,187
Operating income	88,869	81,720	80,981	78,074
Interest expense, net	1,928	3,150	4,282	6,477
Income before income taxes and equity earnings (losses)	86,941	78,570	76,699	71,597
Provision for income taxes	34,167	30,878	30,142	28,138
Equity earnings (losses) in unconsolidated investments, net	(4)	674	102	(1,329)
Net income	\$ 52,770	\$ 48,366	\$ 46,659	\$ 42,130
Earnings per share:				
Basic	\$ 1.07	\$ 1.00	\$ 0.95	\$ 0.87
Diluted	\$ 1.05	\$ 0.99	\$ 0.93	\$ 0.87
Weighted average shares outstanding:				
Basic	49,513	48,536	49,355	48,412
Diluted	50,445	48,844	50,169	48,654
Cash dividends declared per common share				
	\$ 0.13	\$ 0.13	\$ 0.26	\$ 0.26

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

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

	June 30, 2010 (Unaudited)	June 30, 2009 (Unaudited)	December 31, 2009 (1)
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 36,985	\$ 41,727	\$ 15,843
Receivables, net	238,638	50,981	96,364
Receivables pledged under receivables facility	—	182,307	—
Product inventories, net	331,537	325,198	355,528
Prepaid expenses and other current assets	8,001	8,219	12,901
Deferred income taxes	10,681	11,908	10,681
<b>Total current assets</b>	<b>625,842</b>	<b>620,340</b>	<b>491,317</b>
Property and equipment, net	32,162	34,163	31,432
Goodwill	178,087	170,601	176,923
Other intangible assets, net	13,861	12,471	13,917
Equity interest investments	1,083	28,886	1,006
Other assets, net	28,836	28,438	28,504
<b>Total assets</b>	<b>\$ 879,871</b>	<b>\$ 894,899</b>	<b>\$ 743,099</b>
<b>Liabilities and stockholders' equity</b>			
<b>Current liabilities:</b>			
Accounts payable	\$ 221,374	\$ 194,004	\$ 178,391
Accrued expenses and other current liabilities	70,816	61,355	33,886
Short-term financing	—	25,000	—
Current portion of long-term debt and other long-term liabilities	24,220	27,114	48,236
<b>Total current liabilities</b>	<b>316,410</b>	<b>307,473</b>	<b>260,513</b>
Deferred income taxes	22,132	20,079	21,920
Long-term debt	242,131	282,015	200,700
Other long-term liabilities	7,747	6,145	7,779
<b>Total liabilities</b>	<b>588,420</b>	<b>615,712</b>	<b>490,912</b>
<b>Stockholders' equity:</b>			
Common stock, \$.001 par value; 100,000,000 shares authorized; 49,548,424, 48,650,531 and 48,991,729 shares issued and outstanding at June 30, 2010, June 30, 2009 and December 31, 2009, respectively	50	49	49
Additional paid-in capital	211,091	194,604	202,784

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Retained earnings	79,395	83,875	47,128
Accumulated other comprehensive income	915	659	2,226
Total stockholders' equity	291,451	279,187	252,187
Total liabilities and stockholders' equity	\$ 879,871	\$ 894,899	\$ 743,099

(1) Derived from audited financial statements.

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

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

	Six Months Ended June 30,	
	2010	2009
<b>Operating activities</b>		
Net income	\$ 46,659	\$ 42,130
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,469	4,492
Amortization	1,190	1,307
Share-based compensation	4,034	2,935
Excess tax benefits from share-based compensation	(1,102)	(607)
Equity (earnings) losses in unconsolidated investments	(102)	2,230
Other	(3,914)	(4,400)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Receivables	(132,960)	(115,166)
Product inventories	29,410	80,414
Accounts payable	37,793	20,316
Other current assets and liabilities	43,238	1,960
Net cash provided by operating activities	28,715	35,611
<b>Investing activities</b>		
Acquisition of businesses, net of cash acquired	(4,872)	(381)
Purchase of property and equipment, net of sale proceeds	(5,084)	(5,866)
Net cash used in investing activities	(9,956)	(6,247)
<b>Financing activities</b>		
Proceeds from revolving line of credit	216,539	178,237
Payments on revolving line of credit	(177,637)	(173,222)
Proceeds from asset-backed financing	—	42,000
Payments on asset-backed financing	—	(37,792)
Payments on long-term debt and other long-term liabilities	(24,118)	(3,076)
Payments of deferred acquisition consideration	(500)	—
Payments of deferred financing costs	(145)	(305)
Excess tax benefits from share-based compensation	1,102	607
Proceeds from stock issued under share-based compensation plans	3,172	1,399
Payments of cash dividends	(12,858)	(12,601)
Purchases of treasury stock	(1,534)	(59)
Net cash provided by (used in) financing activities	4,021	(4,812)
Effect of exchange rate changes on cash	(1,638)	1,413

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Change in cash and cash equivalents	21,142	25,965
Cash and cash equivalents at beginning of period	15,843	15,762
Cash and cash equivalents at end of period	\$ 36,985	\$ 41,727

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



POOL CORPORATION  
Notes to Consolidated Financial Statements  
(Unaudited)

Note 1 – Summary of Significant Accounting Policies

Pool Corporation (the Company, which may be referred to as POOL, 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, certain footnotes and other financial information required by GAAP for complete financial statements have been condensed or omitted. The Consolidated Financial Statements include all normal and recurring adjustments that are necessary for a fair presentation of our financial position and operating results including the elimination of all significant intercompany accounts and transactions among our wholly owned subsidiaries.

A description of our significant accounting policies is included in our 2009 Annual Report on Form 10-K/A. 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 and six month periods ended June 30, 2010 are not necessarily indicative of the results to be expected for the twelve months ending December 31, 2010.

Equity Method Investments

Prior to January 2010, we held a 38% equity investment in Latham Acquisition Corporation (LAC), which we accounted for using the equity method of accounting. In December 2009, LAC filed for bankruptcy. LAC's Plan of Reorganization was approved by the United States Bankruptcy Court for the District of Delaware in January 2010, allowing it to emerge from bankruptcy. As of the date of the approval, we no longer have an equity interest in LAC and did not recognize any impact related to LAC's first or second quarter 2010 results.

Allowance for Doubtful Accounts

As of June 30, 2010, our greater than 60 days past due receivables category declined by over 250 basis points as a percentage of total receivables year over year. Along with reductions in our other past due receivables aging categories for the same period, our total current receivables increased by 550 basis points as a percentage of total receivables. Based on this significant improvement in our accounts receivable aging, we reduced our estimated allowance for doubtful accounts in the second quarter of 2010. This adjustment resulted in a \$1.3 million decrease in bad debt expense compared to the second quarter of 2009.

## 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 option awards.

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		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Net income	\$ 52,770	\$ 48,366	\$ 46,659	\$ 42,130
Weighted average common shares outstanding:				
Basic	49,513	48,536	49,355	48,412
Effect of dilutive securities:				
Stock options	927	304	809	238
Employee stock purchase plan	5	4	5	4
Diluted	50,445	48,844	50,169	48,654
Basic earnings per share	\$ 1.07	\$ 1.00	\$ 0.95	\$ 0.87
Diluted earnings per share	\$ 1.05	\$ 0.99	\$ 0.93	\$ 0.87

The weighted average diluted shares outstanding for both the three and six months ended June 30, 2010 exclude stock options to purchase 1,451,858 shares and 1,458,858 shares, respectively, because these options have exercise prices that were higher than the average market price of our common stock and including them in the calculation would have an anti-dilutive effect on earnings per share. In 2009, the weighted average diluted shares outstanding for both the three and six months ended June 30, 2009 excluded stock options to purchase 3,382,543 shares for the same reason.

## Note 3 – Comprehensive Income

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income	\$ 52,770	\$ 48,366	\$ 46,659	\$ 42,130
Foreign currency translation adjustments	(1,247)	2,367	(1,638)	1,413
Unrealized gains (losses) on interest rate swaps (1)	235	953	327	1,632
Comprehensive income	\$ 51,758	\$ 51,686	\$ 45,348	\$ 45,175

(1) Amounts are shown net of tax.

The table below presents the components of and changes in Accumulated other comprehensive income as of and for the six month period ended June 30, 2010 (in thousands):

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Interest Rate Swaps (1)	Total
Balance at December 31, 2009			