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

# FORM 10-Q

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

**For the quarterly period ended September 30, 2019**
**or**

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

**For the transition period from ______ to ______**

**Commission File Number: 0-26640**

# POOL CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **36-3943363** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **109 Northpark Boulevard, Covington, Louisiana** | **70433-5001** |
| (Address of principal executive offices) | (Zip Code) |

**(985) 892-5521**
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, par value $0.001 per share | POOL | NASDAQ Global Select Market |

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of October 25, 2019, there were 40,037,736 shares of common stock outstanding.

**POOL CORPORATION**
**Form 10-Q**
**For the Quarter Ended September 30, 2019**

**TABLE OF CONTENTS**

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Net sales | **$ 898,500** | $ 811,311 | **$ 2,617,283** | $ 2,455,015 |
| Cost of sales | **640,569** | 576,308 | **1,854,408** | 1,745,283 |
| Gross profit | **257,931** | 235,003 | **762,875** | 709,732 |
| Selling and administrative expenses | **153,391** | 142,666 | **447,427** | 421,812 |
| Operating income | **104,540** | 92,337 | **315,448** | 287,920 |
| Interest and other non-operating expenses, net | **5,498** | 4,931 | **18,538** | 14,449 |
| Income before income taxes and equity earnings | **99,042** | 87,406 | **296,910** | 273,471 |
| Provision for income taxes | **19,593** | 18,206 | **53,569** | 55,989 |
| Equity earnings in unconsolidated investments, net | **76** | 61 | **210** | 167 |
| Net income | **$ 79,525** | $ 69,261 | **$ 243,551** | $ 217,649 |
| | | | | |
| Earnings per share: | | | | |
| Basic | **$ 1.99** | $ 1.71 | **$ 6.13** | $ 5.39 |
| Diluted | **$ 1.95** | $ 1.66 | **$ 5.97** | $ 5.20 |
| Weighted average shares outstanding: | | | | |
| Basic | **39,933** | 40,422 | **39,750** | 40,416 |
| Diluted | **40,865** | 41,797 | **40,811** | 41,831 |
| | | | | |
| Cash dividends declared per common share | **$ 0.55** | $ 0.45 | **$ 1.55** | $ 1.27 |

*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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Net income | **$ 79,525** | $ 69,261 | **$ 243,551** | $ 217,649 |
| Other comprehensive (loss) income: | | | | |
| Foreign currency translation (losses) gains | **(2,156)** | 690 | **(734)** | (2,188) |
| Change in unrealized (losses) gains on interest rate swaps, net of change in taxes of $188, $(177), $692 and $(636) | **(565)** | 530 | **(2,074)** | 1,908 |
| Total other comprehensive (loss) income | **(2,721)** | 1,220 | **(2,808)** | (280) |
| Comprehensive income | **$ 76,804** | $ 70,481 | **$ 240,743** | $ 217,369 |

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

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

| | September 30, 2019 (Unaudited) | September 30, 2018 (Unaudited) | December 31, 2018 [1] |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents | **$ 36,693** | $ 35,693 | $ 16,358 |
| Receivables, net | **95,971** | 90,775 | 69,493 |
| Receivables pledged under receivables facility | **211,827** | 196,998 | 138,308 |
| Product inventories, net | **616,217** | 609,983 | 672,579 |
| Prepaid expenses and other current assets | **12,384** | 19,457 | 18,506 |
| Total current assets | **973,092** | 952,906 | 915,244 |
| | | | |
| Property and equipment, net | **112,816** | 109,942 | 106,964 |
| Goodwill | **188,133** | 189,029 | 188,472 |
| Other intangible assets, net | **11,235** | 12,305 | 12,004 |
| Equity interest investments | **1,237** | 1,163 | 1,213 |
| Operating lease assets | **175,878** | — | — |
| Other assets | **19,017** | 18,413 | 16,974 |
| **Total assets** | **$ 1,481,408** | $ 1,283,758 | $ 1,240,871 |
| | | | |
| **Liabilities and stockholders' equity** | | | |
| Current liabilities: | | | |
| Accounts payable | **$ 214,309** | $ 204,706 | $ 237,835 |
| Accrued expenses and other current liabilities | **81,459** | 75,639 | 58,607 |
| Short-term borrowings and current portion of long-term debt | **11,840** | 9,343 | 9,168 |
| Current operating lease liabilities | **56,025** | — | — |
| Total current liabilities | **363,633** | 289,688 | 305,610 |
| | | | |
| Deferred income taxes | **27,951** | 24,802 | 29,399 |
| Long-term debt, net | **535,720** | 571,360 | 657,593 |
| Other long-term liabilities | **26,737** | 25,170 | 24,679 |
| Non-current operating lease liabilities | **121,397** | — | — |
| Total liabilities | **1,075,438** | 911,020 | 1,017,281 |
| | | | |
| Stockholders' equity: | | | |
| Common stock, $0.001 par value; 100,000,000 shares authorized; 40,020,216, 40,479,584 and 39,506,067 shares issued and outstanding at September 30, 2019, September 30, 2018 and December 31, 2018, respectively | **40** | 40 | 40 |
| Additional paid-in capital | **480,478** | 449,276 | 453,193 |
| Retained deficit | **(60,743)** | (68,943) | (218,646) |
| Accumulated other comprehensive loss | **(13,805)** | (7,635) | (10,997) |
| Total stockholders' equity | **405,970** | 372,738 | 223,590 |
| **Total liabilities and stockholders' equity** | **$ 1,481,408** | $ 1,283,758 | $ 1,240,871 |

(1) Derived from audited financial statements.

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

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

| | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|
| **Operating activities** | | |
| Net income | **$ 243,551** | $ 217,649 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | **20,648** | 19,499 |
| Amortization | **1,049** | 1,408 |
| Share-based compensation | **10,243** | 9,793 |
| Equity earnings in unconsolidated investments, net | **(210)** | (167) |
| Other | **5,334** | 3,584 |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | |
| Receivables | **(98,538)** | (93,911) |
| Product inventories | **68,827** | (80,142) |
| Prepaid expenses and other assets | **1,231** | 143 |
| Accounts payable | **(29,782)** | (40,143) |
| Accrued expenses and other current liabilities | **20,900** | 13,547 |
| Net cash provided by operating activities | **243,253** | 51,260 |
| **Investing activities** | | |
| Acquisition of businesses, net of cash acquired | **(8,913)** | (578) |
| Purchases of property and equipment, net of sale proceeds | **(26,926)** | (27,976) |
| Net cash used in investing activities | **(35,839)** | (28,554) |
| **Financing activities** | | |
| Proceeds from revolving line of credit | **836,534** | 820,967 |
| Payments on revolving line of credit | **(1,011,430)** | (813,996) |
| Proceeds from asset-backed financing | **189,000** | 193,400 |
| Payments on asset-backed financing | **(136,300)** | (138,400) |
| Proceeds from short-term borrowings and current portion of long-term debt | **27,633** | 16,118 |
| Payments on short-term borrowings and current portion of long-term debt | **(24,962)** | (17,610) |
| Payments of deferred and contingent acquisition consideration | **(311)** | (265) |
| Payments of deferred financing costs | **—** | (8) |
| Proceeds from stock issued under share-based compensation plans | **17,042** | 12,732 |
| Payments of cash dividends | **(61,752)** | (51,371) |
| Purchases of treasury stock | **(23,188)** | (38,906) |
| Net cash used in financing activities | **(187,734)** | (17,339) |
| Effect of exchange rate changes on cash and cash equivalents | **655** | 386 |
| Change in cash and cash equivalents | **20,335** | 5,753 |
| Cash and cash equivalents at beginning of period | **16,358** | 29,940 |
| Cash and cash equivalents at end of period | **$ 36,693** | $ 35,693 |

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

**POOL CORPORATION**
**Consolidated Statements of Changes in Stockholders' Equity**
(Unaudited)
(In thousands)

| | Common Stock | | Additional Paid-In | Retained | Accumulated Other Comprehensive | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Deficit | Loss | Total |
| Balance at December 31, 2018 | 39,506 | $ 40 | $ 453,193 | $ (218,646) | $ (10,997) | $ 223,590 |
| Net income | — | — | — | 32,637 | — | 32,637 |
| Foreign currency translation | — | — | — | — | 214 | 214 |
| Interest rate swaps, net of the change in taxes of $90 | — | — | — | — | (269) | (269) |
| Repurchases of common stock, net of retirements | (155) | (1) | — | (23,096) | — | (23,097) |
| Share-based compensation | — | — | 3,259 | — | — | 3,259 |
| Adoption of ASU 2016-02 | — | — | — | (709) | — | (709) |
| Issuance of shares under share-based compensation plans | 328 | 1 | 7,070 | — | — | 7,071 |
| Declaration of cash dividends | — | — | — | (17,819) | — | (17,819) |
| Balance at March 31, 2019 | 39,679 | 40 | 463,522 | (227,633) | (11,052) | 224,877 |
| Net income | — | — | — | 131,390 | — | 131,390 |
| Foreign currency translation | — | — | — | — | 1,208 | 1,208 |
| Interest rate swaps, net of the change in taxes of $413 | — | — | — | — | (1,240) | (1,240) |
| Share-based compensation | — | — | 3,335 | — | — | 3,335 |
| Issuance of shares under share-based compensation plans | 219 | — | 5,533 | — | — | 5,533 |
| Declaration of cash dividends | — | — | — | (21,934) | — | (21,934) |
| Balance at June 30, 2019 | 39,898 | 40 | 472,390 | (118,177) | (11,084) | 343,169 |
| Net income | — | — | — | 79,525 | — | 79,525 |
| Foreign currency translation | — | — | — | — | (2,156) | (2,156) |
| Interest rate swaps, net of the change in taxes of $188 | — | — | — | — | (565) | (565) |
| Repurchases of common stock, net of retirements | (1) | — | — | (92) | — | (92) |
| Share-based compensation | — | — | 3,649 | — | — | 3,649 |
| Issuance of shares under share-based compensation plans | 123 | — | 4,439 | — | — | 4,439 |
| Declaration of cash dividends | — | — | — | (21,999) | — | (21,999) |
| **Balance at September 30, 2019** | **40,020** | **$ 40** | **$ 480,478** | **$ (60,743)** | **$ (13,805)** | **$ 405,970** |

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

| | Common Stock | | Additional Paid-In | Retained | Accumulated Other Comprehensive | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Deficit | Loss | Total |
| Balance at December 31, 2017 | 40,212 | $ 40 | $ 426,750 | $ (196,316) | $ (7,328) | $ 223,146 |
| Net income | — | — | — | 31,339 | — | 31,339 |
| Foreign currency translation | — | — | — | — | 976 | 976 |
| Interest rate swaps, net of the change in taxes of $(275) | — | — | — | — | 824 | 824 |
| Repurchases of common stock, net of retirements | (18) | — | — | (2,592) | — | (2,592) |
| Share-based compensation | — | — | 3,321 | — | — | 3,321 |
| Issuance of shares under share-based compensation plans | 375 | 1 | 7,807 | — | — | 7,808 |
| Declaration of cash dividends | — | — | — | (15,011) | — | (15,011) |
| Other | — | — | — | — | (26) | (26) |
| Balance at March 31, 2018 | 40,569 | 41 | 437,878 | (182,580) | (5,554) | 249,785 |
| Net income | — | — | — | 117,049 | — | 117,049 |
| Foreign currency translation | — | — | — | — | (3,854) | (3,854) |
| Interest rate swaps, net of the change in taxes of $(185) | — | — | — | — | 554 | 554 |
| Repurchases of common stock, net of retirements | (259) | (1) | — | (36,283) | — | (36,284) |
| Share-based compensation | — | — | 3,160 | — | — | 3,160 |
| Issuance of shares under share-based compensation plans | 61 | — | 1,575 | — | — | 1,575 |
| Declaration of cash dividends | — | — | — | (18,183) | — | (18,183) |
| Other | — | — | 1 | (1) | (1) | (1) |
| Balance at June 30, 2018 | 40,371 | 40 | 442,614 | (119,998) | (8,855) | 313,801 |
| Net income | — | — | — | 69,261 | — | 69,261 |
| Foreign currency translation | — | — | — | — | 690 | 690 |
| Interest rate swaps, net of the change in taxes of $(177) | — | — | — | — | 530 | 530 |
| Repurchases of common stock, net of retirements | — | — | — | (30) | — | (30) |
| Share-based compensation | — | — | 3,312 | — | — | 3,312 |
| Issuance of shares under share-based compensation plans | 109 | — | 3,349 | — | — | 3,349 |
| Declaration of cash dividends | — | — | — | (18,177) | — | (18,177) |
| Other | — | — | 1 | 1 | — | 2 |
| Balance at September 30, 2018 | 40,480 | $ 40 | $ 449,276 | $ (68,943) | $ (7,635) | $ 372,738 |

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

**POOL CORPORATION**
**Notes to Consolidated Financial Statements**
(Unaudited)

**Note 1 – Summary of Significant Accounting Policies**

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

The interim 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 2018 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 2018 Annual Report on Form 10-K. The results for our three and nine month periods ended September 30, 2019 are not necessarily indicative of the expected results for our fiscal year ending December 31, 2019.

**Newly Adopted Accounting Pronouncements**

On January 1, 2019, we adopted Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842),* and all the related amendments, which are codified into Accounting Standards Codification (ASC) 842. The adoption of ASU 2016-02 significantly increased assets and liabilities on our Consolidated Balance Sheets as we recorded a right-of-use asset and corresponding liability for each of our existing operating leases. We adopted this guidance using the modified retrospective approach by recognizing a cumulative adjustment to retained earnings on the adoption date, which was not material. Additionally, we elected to apply the practical expedient that allows us to exclude comparative presentation; thus, we did not restate our prior period balance sheets to reflect the new guidance.

We recorded operating lease assets of approximately $175.7 million and operating lease liabilities of approximately $181.6 million as of January 1, 2019. The difference between the operating lease assets and operating lease liabilities primarily represents our straight-line rent liability of $5.1 million recorded under previous accounting guidance. Under ASU 2016-02, this liability is considered a reduction of the operating lease asset. We recorded the remaining difference between our operating lease assets and operating lease liabilities, net of the deferred tax impact, as an adjustment to retained earnings. Additionally, we reclassified prepaid rent of $4.9 million as of January 1, 2019 to our operating lease asset resulting in a balance of $180.6 million as of the adoption date.

The adoption of this guidance did not materially impact our results of operations or cash flows. See Commitments and Contingencies within this note below for additional information regarding our adoption of this new guidance.

On January 1, 2019, we adopted ASU 2017-12, *Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities.* This new standard expands and refines hedge accounting for both financial and non-financial risk components, aligns the recognition and presentation of the effects of hedging instruments and hedged items in the financial statements and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The adoption of this guidance did not impact our results of operations, statement of financial position or cash flows.

**Commitments and Contingencies**

We lease facilities for our corporate and administrative offices, sales centers and centralized shipping locations under operating leases that expire in various years through 2032. Most of our leases contain five-year terms with renewal options that allow us to extend the lease term beyond the initial period, subject to terms agreed upon at lease inception. Based on our leasing practices and contract negotiations, we determined that we are not reasonably certain to exercise the renewal options and, as such, we have not included optional renewal periods in our measurement of operating lease assets, liabilities and expected lease terms.

We elected to apply the package of practical expedients available within ASU 2016-02, which is intended to provide some relief to issuers. Electing this option allowed us to retain our existing assessment of whether an arrangement is or contains a lease, is classified as an operating or financing lease and contains initial direct costs. We also elected the practical expedients that allow us to exclude short-term leases from our Consolidated Balance Sheets and to combine lease and non-lease components.

For leases with step rent provisions whereby the rental payments increase incrementally over the life of the lease, we recognize expense on a straight-line basis determined by the total lease payments over the lease term. To the extent we determine that future obligations related to real estate taxes, insurance and other lease components are variable, we exclude them from the measurement of our operating lease assets and liabilities.

Some of our real estate agreements include rental payments adjusted periodically for inflation. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The table below presents expenses associated with facility and vehicle operating leases (in thousands):

| | | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| **Lease Cost** | **Classification** | **2019** | **2018** | **2019** | **2018** |
| Operating lease cost (1) | Selling and administrative expenses | **$ 16,358** | $ 15,524 | **$ 47,690** | $ 45,308 |
| Variable lease cost | Selling and administrative expenses | **3,335** | 3,114 | **9,942** | 9,177 |

(1) Includes short-term lease cost, which is not material.

Based on our lease portfolio as of September 30, 2019, the table below sets forth the approximate future lease payments related to operating leases with initial terms of one year or more (in thousands):

| | |
|---|---|
| 2019 | $ 9,563 |
| 2020 | 54,926 |
| 2021 | 44,186 |
| 2022 | 35,217 |
| 2023 | 22,886 |
| Thereafter | 25,472 |
| Total lease payments | 192,250 |
| Less: interest | 14,828 |
| Present value of lease liabilities | 177,422 |

To calculate the present value of our lease liabilities, we determined our incremental borrowing rate based on the effective interest rate on our unsecured syndicated senior credit facility (the Credit Facility) adjusted for a collateral feature similar to that of our leased properties. The table below presents the weighted-average remaining lease term (years) of our operating leases and the weighted-average discount rate used in the above calculation:

| | September 30, |
|---|---|
| **Lease Term and Discount Rate** | **2019** |
| Weighted-average remaining lease term (years) | |
| Operating leases | 4.55 |
| Weighted-average discount rate | |
| Operating leases | 3.47 % |

The table below presents the amount of cash paid for amounts included in the measurement of lease liabilities (in thousands):

| | | Nine Months Ended September 30, |
|---|---|---|
| | | 2019 |
| Operating cash flows for lease liabilities | $ | 42,167 |

We lease corporate and administrative offices from Northpark Corporate Center, LLC (NCC), an entity in which we have held a 50% ownership interest since May 2005. NCC owns and operates an office building in Covington, Louisiana. As of September 30, 2019, we occupy approximately 60,000 square feet of office space and we pay rent of $0.1 million per month. Our lease term ends in May 2025. We recorded rent expense of $0.9 million for each of the nine month periods ended September 30, 2019 and September 30, 2018.

**Income Taxes**

We reduce federal and state income taxes payable by the tax benefits associated with the exercise of nonqualified stock options and the lapse of restrictions on restricted stock awards. To the extent realized tax deductions exceed the amount of previously recognized deferred tax benefits related to share-based compensation, we record an excess tax benefit. We record all excess tax benefits as a component of income tax benefit or expense on the Consolidated Statements of Income in the period in which stock options are exercised or restrictions on awards lapse. We recorded excess tax benefits of $4.5 million and $3.3 million in the third quarters of 2019 and 2018, respectively, and $21.1 million in the first nine months of 2019 compared to $13.9 million in the same period of 2018.

**Retained Deficit**

We account for the retirement of treasury shares as a reduction of retained earnings (deficit). As of September 30, 2019, 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 $1.4 billion and cumulative dividends of $556.9 million.

**Accumulated Other Comprehensive Loss**

The table below presents the components of our Accumulated other comprehensive loss balance (in thousands):

| | September 30, | | | | December 31, | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2018 | |
| Foreign currency translation adjustments | **$** | **(13,156)** | $ | (9,692) | $ | (12,422) |
| Unrealized (losses) gains on interest rate swaps, net of tax (1) | | **(649)** | | 2,057 | | 1,425 |
| Accumulated other comprehensive loss | **$** | **(13,805)** | $ | (7,635) | $ | (10,997) |

(1) In February 2018, the Financial Accounting Standards Board (FASB) issued guidance that allows entities the option to reclassify the tax effects related to items in accumulated other comprehensive income (loss) to retained earnings (deficit) if deemed to be stranded in accumulated other comprehensive income (loss) due to U.S. tax reform. We do not have any material amounts stranded in Accumulated other comprehensive loss as a result of U.S. tax reform.

**Recent Accounting Pronouncements Pending Adoption**

The following table summarizes the recent accounting pronouncements that we plan to adopt in future periods:

| Standard | Description | Effective Date | Effect on Financial Statements and Other Significant Matters |
|---|---|---|---|
| ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* | Changes the way companies evaluate credit losses for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model to evaluate impairment, potentially resulting in earlier recognition of allowances for losses. The new standard also requires enhanced disclosures, including the requirement to disclose the information used to track credit quality by year of origination for most financing receivables. The guidance must be applied using a cumulative-effect transition method. | Annual periods beginning after December 15, 2019 | We are currently evaluating the effect this will have on our financial position, results of operations and related disclosures. We do not expect that there will be a material impact to the financial statements as a result of adopting this ASU. |
| ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* | Eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge (commonly referred to as Step 2 under the current guidance). Rather, the measurement of a goodwill impairment charge will be based on the excess of a reporting unit's carrying value over its fair value (Step 1 under the current guidance). This guidance should be applied prospectively. | Annual and interim impairment tests performed in periods beginning after December 15, 2019 | We are currently evaluating the effect this will have on our financial position, results of operations and related disclosures. |
| ASU 2018-15, *Intangibles - Goodwill and Other (Topic 350): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* | Aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software and hosting arrangements that include an internal-use software license. The amendments may be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. | Annual periods beginning after December 15, 2019 | We are currently evaluating the effect this will have on our financial position, results of operations and related disclosures. |

**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 reflects the dilutive effects of potentially dilutive securities, which include in-the-money outstanding stock options and shares to be purchased under our employee stock purchase plan. Using the treasury stock method, the effect of dilutive securities includes these additional shares of common stock that would have been outstanding based on the assumption that these potentially dilutive securities had been issued.

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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Net income | **$ 79,525** | $ 69,261 | **$ 243,551** | $ 217,649 |
| Weighted average shares outstanding: | | | | |
| Basic | **39,933** | 40,422 | **39,750** | 40,416 |
| Effect of dilutive securities: | | | | |
| Stock options and employee stock purchase plan | **932** | 1,375 | **1,061** | 1,415 |
| Diluted | **40,865** | 41,797 | **40,811** | 41,831 |
| Earnings per share: | | | | |
| Basic | **$ 1.99** | $ 1.71 | **$ 6.13** | $ 5.39 |
| Diluted | **$ 1.95** | $ 1.66 | **$ 5.97** | $ 5.20 |
| Anti-dilutive stock options excluded from diluted earnings per share computations | **—** | — | **1** | — |

**Note 3 – Acquisitions**

In January 2019, we acquired the distribution assets of W.W. Adcock, Inc., a wholesale distributor of swimming pool products, equipment, parts and supplies adding two locations in Pennsylvania, one location in North Carolina and one location in Virginia.

In November 2018, we acquired the distribution assets of Turf & Garden, Inc., a wholesale distributor of irrigation products and landscape maintenance equipment, parts and supplies with three locations in Virginia and one location in North Carolina.

We have completed our acquisition accounting for these acquisitions, subject to adjustments for standard holdback provisions per the terms of the purchase agreements, which are not material.

In January 2018, we acquired the distribution assets of Tore Pty. Ltd. (doing business as Pool Power), a wholesale distributor of pool and spa equipment in South Australia, with one distribution center in Adelaide, Australia. We have completed our acquisition accounting for this acquisition.

These acquisitions did not have a material impact on our financial position or results of operations, either individually or in the aggregate.

**Note 4 – Fair Value Measurements and Interest Rate Swaps**

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

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

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; or
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

| | Fair Value at September 30, | |
|---|---|---|
| | **2019** | **2018** |
| **Level 2** | | |
| Unrealized gains on interest rate swaps | **$ 631** | $ 3,542 |
| Unrealized losses on interest rate swaps | **1,532** | — |
| **Level 3** | | |
| Contingent consideration liabilities | **$ 745** | $ 1,431 |

**Interest Rate Swaps**

We utilize interest rate swap contracts and forward-starting interest rate swap contracts to reduce our exposure to fluctuations in variable interest rates for future interest payments on our Credit Facility.

For determining the fair value of our interest rate swap and forward-starting interest rate swap contracts, we use significant other observable market data or assumptions (Level 2 inputs) that we believe market participants would use in pricing similar assets or liabilities, including assumptions about counterparty risk. Our fair value estimates reflect an income approach based on the terms of the interest rate swap contracts and inputs corroborated by observable market data including interest rate curves. We include unrealized gains in Prepaid expenses and other current assets and unrealized losses in Accrued expenses and other current liabilities on the Consolidated Balance Sheets.

We recognize any differences between the variable interest rate in effect and the fixed interest rates per our swap contracts as an adjustment to interest expense over the life of the swaps. If determined to be effective cash flow hedges, we record the changes in the estimated fair value of the swaps to Accumulated other comprehensive loss on our Consolidated Balance Sheets. To the extent our interest rate swaps are determined to be ineffective, we recognize the changes in the estimated fair value of our swaps in Interest and other non-operating expenses, net on our Consolidated Statements of Income.

We currently have three interest rate swap contracts in place, which became effective on October 19, 2016. These swaps were previously forward-starting contracts that were amended in October 2015 to bring the fixed rates per our forward-starting contracts in line with current market rates at that time and extend the hedged period for future interest payments on our Credit Facility. As amended, these swap contracts terminate on November 20, 2019. In the first nine months of 2019, we recognized a loss of $0.5 million as a result of ineffectiveness.

The following table provides additional details related to each of these amended interest rate swap contracts:

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

For the three interest rate swap contracts in effect at September 30, 2019, a portion of the change in the estimated fair value between periods relates to future interest expense. Recognition of the change in fair value between periods attributable to accrued interest is reclassified from Accumulated other comprehensive loss on the Consolidated Balance Sheets to Interest and other non-operating expenses, net on the Consolidated Statements of Income. These amounts were not material in the nine month periods ended September 30, 2019 and September 30, 2018.

In July 2016, we entered into a forward-starting interest rate swap contract to extend the hedged period for future interest payments on our Credit Facility to its maturity date at that time. This swap contract will convert the variable interest rate to a fixed interest rate on borrowings under the Credit Facility. This contract becomes effective on November 20, 2019 and terminates on November 20, 2020.

In May and July 2019, we entered into additional forward-starting interest rate swap contracts to extend the hedged period for future interest payments on our Credit Facility to its maturity date. These swap contracts will convert the variable interest rate to a fixed interest rate on borrowings under the Credit Facility. The contracts become effective on November 20, 2020 and terminate on September 29, 2022.

The following table provides additional details related to each of these forward-starting interest rate swap contracts:

| Derivative | Inception Date | Notional Amount (in millions) | Fixed Interest Rate |
|---|---|---|---|
| Forward-starting interest rate swap 1 | July 6, 2016 | $150.0 | 1.1425% |
| Forward-starting interest rate swap 2 | May 7, 2019 | $75.0 | 2.0925% |
| Forward-starting interest rate swap 3 | July 25, 2019 | $75.0 | 1.5500% |

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

Our interest rate swap and forward-starting interest rate swap contracts are subject to master netting arrangements. According to our accounting policy, we do not offset the fair values of assets with the fair values of liabilities related to these contracts.

**Other**

The carrying values of cash, receivables, accounts payable and accrued liabilities approximate fair value due to the short maturity of those instruments (Level 1 inputs). The carrying value of long-term debt approximates fair value (Level 3 inputs). Our determination of the estimated fair value reflects a discounted cash flow model using our estimates, including assumptions related to borrowing rates (Level 3 inputs).

**Note 5 – Debt**

The table below presents the components of our debt (in thousands):

| | September 30, 2019 | September 30, 2018 |
|---|---|---|
| **Variable rate debt** | | |
| Short-term borrowings | **$ 2,116** | $ 321 |
| Current portion of long-term debt: | | |
| Australian credit facility | **9,724** | 9,022 |
| Short-term borrowings and current portion of long-term debt | **11,840** | 9,343 |
| | | |
| Long-term portion: | | |
| Revolving credit facility | **375,235** | 417,410 |
| Receivables securitization facility | **161,200** | 155,000 |
| Less: financing costs, net | **715** | 1,050 |
| Long-term debt, net | **535,720** | 571,360 |
| Total debt | **$ 547,560** | $ 580,703 |

Our accounts receivable 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.

We account for the sale of the receivable interests as a secured borrowing on our Consolidated Balance Sheets. The receivables subject to the agreement collateralize the cash proceeds received from the third-party financial institutions. We classify the entire outstanding balance as Long-term debt, net on our Consolidated Balance Sheets as we intend and have the ability 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.

**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 2018 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**

This report contains forward-looking information that involves risks and uncertainties. Our forward-looking statements express our current expectations or forecasts of possible future results or events, including projections of earnings and other financial performance measures, statements of management’s expectations regarding our plans and objectives and industry, general economic and other forecasts of trends, future dividend payments and share repurchases, 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,” "intend,” "believe,” "will likely result,” "outlook,” "project,” "may,” "can,” "plan,” "target,” "potential,” "should” and other words and expressions of similar meaning.

No assurance can be given that the expected results in any forward-looking statement 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, excess tax benefits or deficiencies recognized under ASU 2016-09 and other risks detailed in our 2018 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 believe that demand for swimming pool and outdoor living products remains healthy. Favorable weather conditions and outstanding execution by our teams allowed us to deliver solid results for the third quarter of 2019.

Net sales increased 11% to $898.5 million in the third quarter of 2019 compared to $811.3 million in the third quarter of 2018, while base business sales grew 9% compared to the same period last year. During the quarter, sales continued to benefit from strong demand for discretionary products as evidenced by higher sales growth in construction materials and products used in the repair and replacement of in-ground pools. Additionally, sales were favorably impacted approximately 1% from an extra selling day in the third quarter of 2019 compared to the third quarter of 2018.

Gross profit increased 10% to $257.9 million in the third quarter of 2019 from $235.0 million in the same period of 2018. Base business gross profit improved 8% over the third quarter of 2018. Gross margin decreased 30 basis points to 28.7% in the third quarter of 2019 compared to 29.0% in the third quarter of 2018. Gross margin in the third quarter of 2018 reflected benefits from strategic inventory purchases ahead of vendor price increases resulting in a comparative decline in the third quarter of 2019.

Selling and administrative expenses (operating expenses) increased 8% to $153.4 million in the third quarter of 2019 compared to the third quarter of 2018, a portion of which reflects expenses from our most recent acquisitions. Base business operating expenses were up 5% over the comparable 2018 period, reflecting increases in variable labor and freight costs. As a percentage of net sales, base business operating expenses decreased to 16.9% in the third quarter of 2019 compared to 17.6% in the third quarter of 2018.

Operating income for the third quarter of 2019 increased to $104.5 million, up 13% compared to the same period in 2018. Operating margin was 11.6% in the third quarter of 2019 compared to 11.4% in the third quarter of 2018, while base business operating margin improved 40 basis points from the prior year to 11.8% in the third quarter of 2019.

We recorded a $4.5 million, or $0.11 per diluted share, tax benefit from Accounting Standards Update (ASU) 2016-09, *Improvements to Employee Share-Based Payment Accounting*, in the quarter ended September 30, 2019 compared to a tax benefit of $3.3 million, or $0.08 per diluted share, realized in the same period of 2018.

Net income was $79.5 million in the third quarter of 2019 compared to $69.3 million in the third quarter of 2018. Earnings per share increased 17% to $1.95 per diluted share in the three months ended September 30, 2019 compared to $1.66 per diluted share in the same period of 2018. Excluding the impact from ASU 2016-09 in both periods, earnings per diluted share increased 16% to $1.84 in the third quarter of 2019 compared to $1.58 in the third quarter of 2018.

References to product line and product category data throughout this report generally reflect data related to the North American swimming pool market, as it is more readily available for analysis and represents the largest component of our operations.

**Financial Position and Liquidity**

As of September 30, 2019, total net receivables, including pledged receivables, increased 7% compared to September 30, 2018, primarily reflecting sales growth. Our days sales outstanding (DSO), as calculated on a trailing four quarters basis, was 29.0 days at September 30, 2019 and 30.2 days at September 30, 2018. Our allowance for doubtful accounts balance was $6.2 million at September 30, 2019 and $5.4 million at September 30, 2018.

Net inventory levels grew 1% compared to levels at September 30, 2018. The increase of $6.2 million in inventory reflects the normalization of inventory levels following prior period inventory purchases ahead of vendor price increases. The inventory reserve was $9.9 million at September 30, 2019 and $8.8 million at September 30, 2018. Our inventory turns, as calculated on a trailing four quarters basis, were 3.2 times at September 30, 2019 and 3.4 times at September 30, 2018.

Total debt outstanding at September 30, 2019 was $547.6 million, down 6% compared to total debt at September 30, 2018. We have used debt proceeds over the past 12 months primarily to fund business-driven working capital growth, acquisitions and share repurchases.

**Current Trends and Outlook**

For a detailed discussion of trends through 2018, see the Current Trends and Outlook section of Management’s Discussion and Analysis included in Part II, Item 7 of our 2018 Annual Report on Form 10-K.

We expect total sales growth for 2019 to approximate 6% to 7%. Unfavorable weather impacts throughout the first half of 2019 led to delayed pool openings, suppressed retail sales and lower construction and remodeling activity. Sales in the third quarter of 2019 returned to expected levels and benefited from favorable weather conditions. We believe that our sales for the fourth quarter of 2019 will continue to benefit from delayed projects depending on our customers’ building capacity, including the availability of labor, and weather.

We expect gross margin for the full year of 2019 to be relatively flat compared to 2018, with second half declines offsetting first half gains and a more significant decline in the fourth quarter given the impact of strategic inventory purchases in the second half of 2018.

We target base business operating expense growth at a rate of approximately 60% of gross profit growth for the year, which we believe will enable us to achieve base business operating margin improvement of approximately 20 to 40 basis points for the full year. Our operating margin has grown 40 basis points through the nine months ended September 30, 2019 compared to September 30, 2018, which positively contributes to our targeted operating margin improvement range. Given the expected decline in gross margin in the fourth quarter resulting from the impact of the 2018 strategic inventory purchases, as well as the impact on operating income from acquired locations, we expect a decline in operating income in the fourth quarter of 2019, but still expect to finish the year with base business operating margin expansion of 20 to 40 basis points.

We expect our annual effective tax rate (excluding the benefit from ASU 2016-09) for 2019 will approximate 25.5%, which is consistent with 2018 and a reduction compared to our historical rate of approximately 38.5% due to the impact of U.S. tax reform.

Our effective tax rate is dependent on our results of operations and may change if actual results differ materially from our current expectations, particularly any significant changes in our geographic mix. Due to ASU 2016-09, we expect our effective tax rate will fluctuate from quarter to quarter, particularly in periods when employees elect to exercise their vested stock options or when restrictions on share-based awards lapse. We recorded a $21.1 million, or $0.52 per diluted share, tax benefit from ASU 2016-09 for the nine months ended September 30, 2019. We may recognize additional tax benefits related to stock option exercises in the fourth quarter of 2019 from grants that expire in years after 2019. We have not included any expected benefits in our guidance beyond what we have recognized as of September 30, 2019.

Based on our results to date and expectations for the remainder of the year, we have increased and narrowed our annual earnings guidance range from $6.09 to $6.34 per diluted share to $6.20 to $6.40 per diluted share.

Excluding the impact of timing differences from the strategic inventory purchases we made in the second half of 2018, we expect cash provided by operations will approximate net income for the 2019 fiscal year. We anticipate that we may use approximately $150.0 million to $200.0 million in cash for share repurchases over the next year.

**RESULTS OF OPERATIONS**

As of September 30, 2019, we conducted operations through 372 sales centers in North America, Europe, South America and Australia. For the nine months ended September 30, 2019, approximately 94% of our net sales were from our operations in North America.

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

| | **Three Months Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Net sales | **100.0 %** | 100.0 % | **100.0 %** | 100.0 % |
| Cost of sales | **71.3** | 71.0 | **70.9** | 71.1 |
| Gross profit | **28.7** | 29.0 | **29.1** | 28.9 |
| Operating expenses | **17.1** | 17.6 | **17.1** | 17.2 |
| Operating income | **11.6** | 11.4 | **12.1** | 11.7 |
| Interest and other non-operating expenses, net | **0.6** | 0.6 | **0.7** | 0.6 |
| Income before income taxes and equity earnings | **11.0 %** | 10.8 % | **11.3 %** | 11.1 % |

Note: Due to rounding, percentages presented in the table above may not add to Income before income taxes and equity earnings.

We have included the results of operations from acquisitions in 2019 and 2018 in our consolidated results since the acquisition dates.

**Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018**

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

| (Unaudited)<br>(in thousands) | Base Business<br>Three Months Ended<br>September 30, | | Excluded<br>Three Months Ended<br>September 30, | | Total<br>Three Months Ended<br>September 30, | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Net sales | **$ 886,690** | $ 811,006 | **$ 11,810** | $ 305 | **$ 898,500** | $ 811,311 |
| Gross profit | **254,779** | 234,943 | **3,152** | 60 | **257,931** | 235,003 |
| Gross margin | **28.7 %** | 29.0 % | **26.7 %** | 19.7 % | **28.7 %** | 29.0 % |
| Operating expenses | **150,054** | 142,543 | **3,337** | 123 | **153,391** | 142,666 |
| Expenses as a % of net sales | **16.9 %** | 17.6 % | **28.3 %** | 40.3 % | **17.1 %** | 17.6 % |
| Operating income (loss) | **104,725** | 92,400 | **(185)** | (63) | **104,540** | 92,337 |
| Operating margin | **11.8 %** | 11.4 % | **(1.6)%** | (20.7)% | **11.6 %** | 11.4 % |

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 |
|---|---|---|---|
| W.W. Adcock, Inc. (1) | January 2019 | 4 | July - September 2019 |
| Turf & Garden, Inc. (1) | November 2018 | 4 | July - September 2019 |

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

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

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

The table below summarizes the changes in our sales center count during the first nine months of 2019:

| | |
|---|---|
| December 31, 2018 | 364 |
| Acquired locations | 4 |
| New locations, existing markets | 7 |
| Closed/consolidated locations | (3) |
| September 30, 2019 | 372 |

*Net Sales*

| (in millions) | Three Months Ended September 30, 2019 | 2018 | Change | |
|---|---|---|---|---|
| Net sales | **$ 898.5** | $ 811.3 | $ 87.2 | 11% |

Net sales increased 11% in the third quarter of 2019 compared to the third quarter of 2018, with base business sales up 9% compared to the same period last year. Disciplined execution by our teams, coupled with favorable weather conditions, drove these results. In the third quarter of 2019, we observed above average temperatures in most of the contiguous United States and below average precipitation in the southern United States, which benefited overall swimming pool industry growth.

The following factors benefited our sales (listed in order of estimated magnitude):

- strong demand for discretionary products, as evidenced by improvements in sales growth rates for product offerings such as building materials (see discussion below);
- market share gains, particularly in building materials and commercial products (see discussion below); and
- inflationary product cost increases (estimated at approximately 2% above our historical average of 1% to 2%).

Additionally, sales were favorably impacted approximately 1% from an extra selling day in the third quarter of 2019 compared to the third quarter of 2018.

We believe that higher sales growth rates for certain product offerings, such as equipment and building materials, evidence increased spending in traditionally discretionary areas, such as pool construction, pool remodeling and equipment upgrades. In the third quarter of 2019, sales for equipment, which includes swimming pool heaters, pumps, lights and filters, increased 13% compared to the same period last year. These products collectively represented approximately 26% of net sales for the period. Sales of building materials grew 10% compared to the third quarter of 2018 and represented approximately 11% of net sales in the third quarter of 2019.

Sales to customers who service large commercial swimming pools such as hotels, universities and community recreational facilities are included in the appropriate existing product categories, and growth in this area is reflected in the numbers above. Sales to these customers represented approximately 5% of our consolidated net sales for the third quarter of 2019 and increased 17% compared to the third quarter of 2018.

*Gross Profit*

| (in millions) | Three Months Ended September 30, 2019 | 2018 | Change | |
|---|---|---|---|---|
| Gross profit | **$ 257.9** | $ 235.0 | $ 22.9 | 10% |
| Gross margin | **28.7 %** | 29.0 % | | |

Gross margin in the third quarter of 2018 reflected benefits from strategic inventory purchases ahead of vendor price increases resulting in a comparative decline in the third quarter of 2019.

*Operating Expenses*

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| (in millions) | 2019 | 2018 | Change | |
| Operating expenses | **$ 153.4** | $ 142.7 | $ 10.7 | 8% |
| Operating expenses as a % of net sales | **17.1 %** | 17.6 % | | |

Operating expenses increased 8% in the third quarter of 2019 compared to the third quarter of 2018, with base business operating expenses up approximately 5% compared to the same period last year, reflecting increases in variable labor and freight costs. Operating expense growth was also impacted approximately 1% from an extra selling day in the third quarter of 2019 compared to the third quarter of 2018 and 1% from incremental costs incurred related to the opening of new locations.

*Interest and Other Non-Operating Expenses, Net*

Interest and other non-operating expenses, net for the third quarter of 2019 increased $0.6 million compared to the third quarter of 2018. The increase reflects higher average debt levels and higher average interest rates between periods. Our weighted average effective interest rate increased to 3.4% for the third quarter of 2019 from 3.3% for the third quarter of 2018 on higher average outstanding debt of $568.3 million versus $566.2 million for the respective periods.

*Income Taxes*

Our effective income tax rate was 19.8% for the three months ended September 30, 2019 compared to 20.8% for the three months ended September 30, 2018. We recorded a $4.5 million tax benefit from ASU 2016-09 in the quarter ended September 30, 2019 compared to a benefit of $3.3 million realized in the same period last year. Excluding the benefits from ASU 2016-09, our effective tax rate was 24.3% for the third quarter of 2019 and 24.6% for the third quarter of 2018. Our third quarter effective income tax rate is typically lower compared to other quarters due to the timing of our accounting for uncertain tax positions, including the expiration of statutes of limitations.

*Net Income and Earnings Per Share*

Net income increased 15% to $79.5 million in the third quarter of 2019 compared to the third quarter of 2018. Earnings per diluted share increased to $1.95 in the third quarter of 2019 versus $1.66 per diluted share for the comparable 2018 period. The benefit from ASU 2016-09 increased diluted earnings per share by $0.11 in the third quarter of 2019 and $0.08 in the third quarter of 2018. Excluding the impact from ASU 2016-09 in both periods, earnings per diluted share increased 16% to $1.84 in the third quarter of 2019 compared to $1.58 in the third quarter of 2018.

**Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018**

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

| (Unaudited)<br>(in thousands) | Base Business<br>Nine Months Ended<br>September 30, | | Excluded<br>Nine Months Ended<br>September 30, | | Total<br>Nine Months Ended<br>September 30, | |
|---|---|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| Net sales | **$ 2,577,429** | $ 2,451,101 | **$ 39,854** | $ 3,914 | **$ 2,617,283** | $ 2,455,015 |
| | | | | | | |
| Gross profit | **751,933** | 708,828 | **10,942** | 904 | **762,875** | 709,732 |
| Gross margin | **29.2 %** | 28.9 % | **27.5 %** | 23.1 % | **29.1 %** | 28.9 % |
| | | | | | | |
| Operating expenses | **436,461** | 420,187 | **10,966** | 1,625 | **447,427** | 421,812 |
| Expenses as a % of net sales | **16.9 %** | 17.1 % | **27.5 %** | 41.5 % | **17.1 %** | 17.2 % |
| | | | | | | |
| Operating income (loss) | **315,472** | 288,641 | **(24)** | (721) | **315,448** | 287,920 |
| Operating margin | **12.2 %** | 11.8 % | **(0.1)%** | (18.4)% | **12.1 %** | 11.7 % |

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** |
|---|---|---|---|
| W.W. Adcock, Inc. (1) | January 2019 | 4 | January - September 2019 |
| Turf & Garden, Inc. (1) | November 2018 | 4 | January - September 2019 |
| Tore Pty. Ltd. (Pool Power) (1) | January 2018 | 1 | January - April 2019 and<br>January - April 2018 |
| Chem Quip, Inc. (1) | December 2017 | 5 | January - March 2019 and<br>January - March 2018 |
| Intermark | December 2017 | 1 | January - February 2019 and<br>January - February 2018 |

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

For a more detailed explanation of how we calculated base business results and a summary of the changes in our sales centers since December 31, 2018, please refer to the discussion under the heading *Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018.*

***Net Sales***

| (in millions) | Nine Months Ended September 30, 2019 | 2018 | Change | |
|---|---|---|---|---|
| Net sales | **$ 2,617.3** | $ 2,455.0 | $ 162.3 | 7% |

Net sales for the first nine months of 2019 increased 7% compared to the same period last year, with most of this growth resulting from a 5% improvement in base business sales. Unfavorable weather impacts in early 2019 led to delayed pool openings and lower construction and remodeling activity. In the second quarter of 2019, record rainfall and cooler temperatures in three of our four largest markets, California, Texas and Arizona, hindered our sales growth. Favorable weather conditions in the third quarter of 2019 benefited overall swimming pool industry growth. Strong demand and above average temperatures in the third quarter of 2019 positively impacted net sales and allowed us to serve the pent-up demand from earlier in the year.

The following factors benefited our sales (listed in order of estimated magnitude):

- strong demand for discretionary products, as evidenced by improvements in sales growth rates for product offerings such as building materials (see discussion below);
- market share gains, particularly in building materials and commercial products (see discussion below);
- inflationary product cost increases (estimated at approximately 2% above our historical average of 1% to 2%).

In addition, unfavorable currency exchange rate fluctuations negatively impacted our sales growth by 1%.

We believe that sales growth rates for certain product offerings, such as building materials and equipment, evidence increased spending in traditionally discretionary areas, such as pool construction, pool remodeling and equipment upgrades. In the first nine months of 2019, sales for equipment, which includes swimming pool heaters, pumps, lights and filters, increased approximately 6% compared to the same period last year. These products collectively represented 26% of net sales in the first nine months of 2019. Sales of building materials grew 9% compared to the first nine months of 2018 and represented approximately 12% of net sales in the first nine months of 2019.

Sales to customers who service large commercial swimming pools such as hotels, universities and community recreational facilities are included in the appropriate existing product categories, and growth in this area is reflected in the numbers above. Sales to these customers represented approximately 5% of our consolidated net sales in the first nine months of 2019 and increased 9% compared to the same period in 2018.

***Gross Profit***

| (in millions) | Nine Months Ended September 30, 2019 | 2018 | Change | |
|---|---|---|---|---|
| Gross profit | **$ 762.9** | $ 709.7 | $ 53.2 | 7% |
| Gross margin | **29.1 %** | 28.9 % | | |

The increase in gross margin reflects benefits from prior period strategic inventory purchases realized in the first half of 2019, which were partially offset by declines in the third quarter of 2019.

### *Operating Expenses*

| (in millions) | Nine Months Ended September 30, 2019 | 2018 | Change | |
|---|---|---|---|---|
| Operating expenses | **$ 447.4** | $ 421.8 | $ 25.6 | 6% |
| Operating expenses as a % of net sales | **17.1 %** | 17.2 % | | |

For the first nine months of 2019, operating expenses increased 6% over the same period last year, with base business operating expenses up 4%. The increase in operating expenses reflects expense growth of 1% related to growth-driven increases in labor expenses and increased facility costs from new locations, as well as expense growth from higher labor costs at existing locations and an overall increase in freight-related expenses. Conversely, currency exchange rate fluctuations offset expense growth by 1%.

### *Interest and Other Non-Operating Expenses, Net*

Interest and other non-operating expenses, net for the first nine months of 2019 increased $4.1 million compared to the same period last year. The increase reflects higher average debt levels and higher average interest rates between periods. Our weighted average effective interest rate increased to 3.5% for the first nine months of 2019 from 3.2% for the same period of 2018 on average outstanding debt of $631.1 million versus $569.5 million for the respective periods.

### *Income Taxes*

Our effective income tax rate was 18.0% for the nine months ended September 30, 2019 compared to 20.5% for the nine months ended September 30, 2018. We recorded a $21.1 million tax benefit from ASU 2016-09 in the nine months ended September 30, 2019 compared to a benefit of $13.9 million realized in the same period of 2018. Excluding the benefits from ASU 2016-09, our effective tax rate was 25.1% for the nine months ended September 30, 2019 and 25.5% for the nine months ended September 30, 2018.

### *Net Income and Earnings Per Share*

Net income increased 12% to $243.6 million for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. Earnings per diluted share increased to $5.97 for the nine months ended September 30, 2019 versus $5.20 per diluted share for the nine months ended September 30, 2018. The benefit from ASU 2016-09 increased diluted earnings per share by $0.52 in the nine months ended September 30, 2019 and $0.33 in the nine months ended September 30, 2018. Excluding the impact from ASU 2016-09 in both periods, earnings per diluted share increased 12% to $5.45 in the nine months ended September 30, 2019 compared to $4.87 in the nine months ended September 30, 2018.

**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 irrigation and landscape installations and maintenance. Sales are substantially lower during the first and fourth quarters, when we may incur net losses. In 2018, we generated approximately 62% of our net sales and 81% 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 three quarters of 2019, the four quarters of 2018 and the fourth quarter of 2017. We have included income statement and balance sheet data for the most recent eight quarters to allow for a meaningful comparison of the seasonal fluctuations in these amounts. In our opinion, this information reflects all normal and recurring adjustments considered necessary for a fair presentation of this data. Due to the seasonal nature of our industry, the results of any one or more quarters are not necessarily a good indication of results for an entire fiscal year or of continuing trends.

| (Unaudited) | **QUARTER** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (in thousands) | **2019** | | | **2018** | | | | **2017** |
| | **Third** | **Second** | **First** | **Fourth** | **Third** | **Second** | **First** | **Fourth** |
| **Statement of Income Data** | | | | | | | | |
| Net sales | **$ 898,500** | $ 1,121,328 | $ 597,456 | $ 543,082 | $ 811,311 | $ 1,057,804 | $ 585,900 | $ 510,183 |
| Gross profit | **257,931** | 330,314 | 174,631 | 160,442 | 235,003 | 308,655 | 166,073 | 145,398 |
| Operating income | **104,540** | 172,523 | 38,386 | 25,970 | 92,337 | 162,042 | 33,541 | 17,259 |
| Net income | **79,525** | 131,390 | 32,637 | 16,811 | 69,261 | 117,049 | 31,339 | 25,665 |
| **Balance Sheet Data** | | | | | | | | |
| Total receivables, net | **$ 307,798** | $ 417,126 | $ 313,127 | $ 207,801 | $ 287,773 | $ 404,415 | $ 314,596 | $ 196,265 |
| Product inventories, net | **616,217** | 694,447 | 815,742 | 672,579 | 609,983 | 606,583 | 703,793 | 536,474 |
| Accounts payable | **214,309** | 342,335 | 472,487 | 237,835 | 204,706 | 300,232 | 467,795 | 245,249 |
| Total debt | **547,560** | 692,337 | 698,977 | 666,761 | 580,703 | 657,120 | 568,110 | 519,650 |

We expect that our quarterly results of operations will continue to fluctuate depending on the timing and amount of revenue contributed by new and acquired sales centers. Based on our peak summer selling season, we generally open new sales centers and close or consolidate sales centers, when warranted, either in the first quarter before the peak selling season begins or in the fourth quarter after the peak selling season ends.

Weather is one of the principal external factors affecting our business. The table below presents some of the possible effects resulting from various weather conditions.

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

***Weather Impacts on 2019 and 2018 Results***

Above average temperatures and below average precipitation throughout most of the country in the third quarter of 2019 positively impacted results for the quarter. In the contiguous United States, September tied with 2015 as the second warmest on record. Throughout the quarter, the southern United States and Ohio Valley benefited from dry conditions. Despite some weather events, including Hurricane Dorian in Florida and Tropical Storm Imelda in southeast Texas, these markets delivered favorable results in the third quarter of 2019. Conversely, bouts of severe weather, including Hurricane Florence, elevated rainfall in Texas and wildfires in California, adversely impacted results for the third quarter of 2018.

Results for the second quarter of 2019 were largely impacted by record rainfall and cooler temperatures in three of our largest markets, California, Texas and Arizona, particularly in the month of May, which was the second wettest May on record for the contiguous United States. In the southeastern United States, favorable weather conditions, including above average temperatures, delivered strong sales growth in these markets. In contrast, in the second quarter of 2018, results in the last two months of the quarter benefited from warm weather throughout the country and helped relieve the effects of a slow start from earlier in 2018.

Wetter and cooler-than-normal temperatures to begin the year hindered our first quarter of 2019 sales growth. Much of the western United States, particularly California and Arizona, experienced cold to record cold temperatures in January and February. The latter half of March benefited from warmer weather throughout most of the country and provided some relief from the slow start earlier in the year. The first quarter of 2018 experienced similar, though less significant, unfavorable weather in certain markets, leading to adverse conditions in 2019 compared to 2018.

## 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;
- the quality of our receivables;
- acquisitions;
- dividend payments;
- capital expenditures;
- changes in income tax laws and regulations;
- 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 principles apply 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, including a modest amount of debt, and returning cash to our shareholders through dividends and share repurchases. Our specific priorities for the use of cash are as follows:

- capital expenditures primarily for maintenance and growth of our sales center structure, technology-related investments and fleet vehicles;
- strategic acquisitions executed opportunistically;
- payment of cash dividends as and when declared by our Board of Directors (Board);
- repayment of debt to maintain an average total leverage ratio (as defined below) between 1.5 and 2.0; and
- repurchases of our common stock under our Board-authorized share repurchase program.

Capital expenditures were 1.1% of net sales in 2018 and 1.4% of net sales in both 2017 and 2016. Our higher capital spending in 2017 and 2016 related to expanding our facilities and purchasing delivery vehicles to address growth. Over the last five years, capital expenditures have averaged roughly 1.0% of net sales. Going forward, we project capital expenditures will continue to approximate this average.

### Sources and Uses of Cash

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2019** | **2018** |
| Operating activities | **$ 243,253** | $ 51,260 |
| Investing activities | **(35,839)** | (28,554) |
| Financing activities | **(187,734)** | (17,339) |

Cash provided by operating activities increased $192.0 million during the first nine months of 2019 compared to the first nine months of 2018. The strategic inventory purchases that we made in the latter half of 2018 negatively impacted our September 30, 2018 cash flows due to timing differences that reversed in 2019.

Cash used in investing activities for the first nine months of 2019 increased compared to the first nine months of 2018 primarily due to the acquisition of W.W. Adcock, Inc., which we completed in January 2019.

Cash used in financing activities was $187.7 million for the first nine months of 2019 compared to $17.3 million for the first nine months of 2018, which primarily reflects increased payments on our revolving line of credit.

**Future Sources and Uses of Cash**

***Revolving Credit Facility***

Our Credit Facility provides for $750.0 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 $825.0 million. The Credit Facility matures on September 29, 2022. We intend to use the Credit Facility for general corporate purposes, for future share repurchases and to fund future growth initiatives.

At September 30, 2019, there was $375.2 million outstanding, a $4.8 million standby letter of credit outstanding and $370.0 million available for borrowing under the Credit Facility. We pay interest on revolving borrowings under the Credit Facility at a variable rate based on the one month London Interbank Offered Rate (LIBOR), plus an applicable margin. We utilize interest rate swap contracts and forward-starting interest rate swap contracts to reduce our exposure to fluctuations in variable interest rates for future interest payments on the Credit Facility. Interest expense related to the notional amounts under all swap contracts is based on the fixed rates plus the applicable margin on the Credit Facility.

As of September 30, 2019, we had three interest rate swap contracts in place that became effective on October 19, 2016. As amended, these swap contracts convert the Credit Facility's variable interest rate to fixed rates of 2.273% on a notional amount of $75.0 million and 2.111% on two separate notional amounts, one $25.0 million and the other $50.0 million, totaling $75.0 million. These interest rate swap contracts will terminate on November 20, 2019.

In July 2016, we entered into a forward-starting interest rate swap contract, which will convert the Credit Facility's variable interest rate to a fixed rate of 1.1425% on a notional amount of $150.0 million. The contract becomes effective on November 20, 2019 and terminates on November 20, 2020.

In May and July 2019, we entered into additional forward-starting interest rate swap contracts, which will convert the variable interest rate to fixed interest rates of 2.0925% and 1.5500%, respectively, on notional amounts of $75.0 million each. These contracts become effective on November 20, 2020 and terminate on September 29, 2022, the maturity date of the Credit Facility.

The weighted average effective interest rate for the Credit Facility as of September 30, 2019 was approximately 3.2%, 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. As of September 30, 2019, 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 September 30, 2019, our average total leverage ratio equaled 1.69 (compared to 1.76 as of June 30, 2019) and the TTM average total debt amount used in this calculation was $647.7 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 September 30, 2019, our fixed charge ratio equaled 5.30 (compared to 5.19 as of June 30, 2019) and TTM Rental Expense was $59.6 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 higher interest rates on our borrowings or the acceleration of the maturities of our outstanding debt.

***Receivables Securitization Facility***

Our two-year accounts receivable securitization facility (the Receivables Facility) offers us a lower cost form of financing, with a peak funding capacity of up to $295.0 million between May 1 and May 31, which includes an additional seasonal funding capacity that is available between March 1 and July 31. Other funding capacities range from $95.0 million to $280.0 million throughout the remaining months of the year.

The Receivables Facility provides for the sale of certain of our receivables to a wholly owned subsidiary (the Securitization Subsidiary). The Securitization Subsidiary transfers variable undivided percentage interests in the receivables and related rights to certain third-party financial institutions in exchange for cash proceeds, limited to the applicable funding capacities. Upon payment of the receivables by customers, rather than remitting to the financial institutions the amounts collected, we retain such collections as proceeds for the sale of new receivables until payments become due.

The Receivables Facility contains terms and conditions (including representations, covenants and conditions precedent) customary for transactions of this type. Additionally, an amortization event will occur if we fail to maintain a maximum average total leverage ratio (average total funded debt/EBITDA) of 3.25 to 1.00 and a minimum fixed charge coverage ratio (EBITDAR/cash interest expense plus rental expense) of 2.25 to 1.00.

At September 30, 2019, there was $161.2 million outstanding under the Receivables Facility at a weighted average effective interest rate of 2.8%, excluding commitment fees.

***Compliance and Future Availability***

As of September 30, 2019, we believe we were in compliance with all covenants and financial ratio requirements under our Credit Facility and our Receivables Facility. We believe we will remain in compliance with all covenants and financial ratio requirements throughout the next twelve months. For additional information regarding our debt arrangements, see Note 5 of "Notes to Consolidated Financial Statements," included in Part II, Item 8 of our 2018 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 October 25, 2019, $249.2 million of the current Board-authorized amount under our share repurchase program remained available. We expect to repurchase additional shares on the open market from time to time depending on market conditions. We plan to fund these repurchases with cash provided by operations and borrowings under the Credit and Receivables Facilities.

**CRITICAL ACCOUNTING ESTIMATES**

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

- those that require the use of assumptions about matters that are inherently and highly uncertain at the time the estimates are made; and
- those for which changes in the estimates 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 2018 Annual Report on Form 10-K. We have not changed these policies from those previously disclosed.

**Recent Accounting Pronouncements**

See Note 1 of "Notes to Consolidated Financial Statements," included in Part I, Item 1 of this Form 10-Q for discussion of recent accounting pronouncements.

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

**Interest Rate Risk**

There have been no material changes during the nine months ended September 30, 2019 from what we reported in our 2018 Annual Report on Form 10-K. For additional information on our interest rate risk, refer to "Quantitative and Qualitative Disclosures about Market Risk" included in Part II, Item 7A. in our 2018 Annual Report on Form 10-K.

**Currency Risk**

There have been no material changes during the nine months ended September 30, 2019 from what we reported in our 2018 Annual Report on Form 10-K. For additional information on our currency risk, refer to "Quantitative and Qualitative Disclosures about Market Risk" included in Part II, Item 7A. in our 2018 Annual Report on Form 10-K.

### 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 September 30, 2019, management, including the CEO and CFO, performed an evaluation of the effectiveness of our disclosure controls and procedures. Based on that evaluation, management, including the CEO and CFO, concluded that as of September 30, 2019, 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

From time to time, we are subject to various claims and litigation arising in the ordinary course of business, including product liability, personal injury, commercial, contract and employment matters. While the outcome of any litigation is inherently unpredictable, based on currently available facts, we do not believe that the ultimate resolution of any of these matters will have a material adverse impact on our financial condition, results of operations or cash flows.

### Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Part I, Item 1A "Risk Factors" in our 2018 Annual Report on Form 10-K.

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

The table below summarizes the repurchases of our common stock in the third quarter of 2019:

| Period | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan (2) | Maximum Approximate Dollar Value of Shares That May Yet be Purchased Under the Plan (3) |
|---|---|---|---|---|
| July 1-31, 2019 | 478 | $ 191.15 | — | $ 249,200,474 |
| August 1 - 31, 2019 | — | $ — | — | $ 249,200,474 |
| September 1 - 30, 2019 | — | $ — | — | $ 249,200,474 |
| Total | 478 | $ 191.15 | — | |

(1) These shares may include shares of our common stock surrendered to us by employees in order to satisfy minimum tax withholding obligations in connection with certain exercises of employee stock options or lapses upon vesting of restrictions on previously restricted share awards, and/or to cover the exercise price of such options granted under our share-based compensation plans. There were 478 shares surrendered for this purpose in the third quarter of 2019.

(2) In May 2019, our Board authorized an additional $200.0 million under our share repurchase program for the repurchase of shares of our common stock in the open market at prevailing market prices or in privately negotiated transactions.

(3) As of October 25, 2019, $249.2 million of the authorized amount remained available under our current share repurchase program.

**Item 6. Exhibits**

Exhibits filed as part of this report are listed below.

| No. | | Description | Filed/ Furnished 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 | | Amended and Restated Bylaws of the Company. | | 8-K | 000-26640 | 2/8/2019 |
| 4.1 | | Form of certificate representing shares of common stock of the Company. | | 8-K | 000-26640 | 5/19/2006 |
| 31.1 | | Certification by Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | X | | | |
| 31.2 | | Certification by Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | X | | | |
| 32.1 | | Certification by Chief Executive Officer and Chief Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | X | | | |
| 101.INS | + | Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. | X | | | |
| 101.SCH | + | Inline XBRL Taxonomy Extension Schema Document | X | | | |
| 101.CAL | + | Inline XBRL Taxonomy Extension Calculation Linkbase Document | X | | | |
| 101.DEF | + | Inline XBRL Taxonomy Extension Definition Linkbase Document | X | | | |
| 101.LAB | + | Inline XBRL Taxonomy Extension Label Linkbase Document | X | | | |
| 101.PRE | + | Inline XBRL Taxonomy Extension Presentation Linkbase Document | X | | | |
| 104 | + | Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101) | X | | | |

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

1. Consolidated Statements of Income for the three and nine months ended September 30, 2019 and September 30, 2018;
2. Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2019 and September 30, 2018;
3. Consolidated Balance Sheets at September 30, 2019, December 31, 2018 and September 30, 2018;
4. Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2019 and September 30, 2018;
5. Consolidated Statements of Changes in Stockholders' Equity for the three and nine months ended September 30, 2019 and September 30, 2018; and
6. Notes to Consolidated Financial Statements.

## SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on October 30, 2019.

**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

**EXHIBIT 31.1**

# Certification of Chief Financial Officer
# Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Mark W. Joslin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pool Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2019

/s/ Mark W. Joslin

Mark W. Joslin

Senior Vice President and Chief Financial Officer

**EXHIBIT 31.2**

## Certification of Chief Executive Officer
## Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Peter D. Arvan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pool Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2019

/s/ Peter D. Arvan

Peter D. Arvan

President and Chief Executive Officer

**EXHIBIT 32.1**

# Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350
# (Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Quarterly Report on Form 10-Q of Pool Corporation (the "Company") for the period ending September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Peter D. Arvan, as Chief Executive Officer of the Company, and Mark W. Joslin, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 30, 2019

/s/ Peter D. Arvan

Peter D. Arvan
President and Chief Executive Officer

/s/ Mark W. Joslin

Mark W. Joslin
Senior Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.