POOL CORP
Form 10-K
March 01, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 2012
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	Name of each exchange on which registered
Common Stock, par value $0.001 per share	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES T NO £
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES £ NO T
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 T NO £

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. £

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

Large accelerated filer T	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant based on the closing sales price of the registrant's common stock as of June 29, 2012 was $1,797,664,827.

As of February 20, 2013, there were 46,424,500 shares of common stock outstanding.

Documents Incorporated by Reference

Portions of the registrant's Proxy Statement to be mailed to stockholders on or about March 28, 2013 for the Annual Meeting to be held on May 1, 2013, are incorporated by reference in Part III of this Form 10-K.

POOL CORPORATION

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PART I.
Item 1. Business

General

Based on industry data, Pool Corporation (the Company, which may be referred to as we, us or our) is the world's largest wholesale distributor of swimming pool supplies, equipment and related leisure products and is one of the top three distributors of irrigation and landscape products in the United States. The Company was incorporated in the State of Delaware in 1993 and has grown from a regional distributor to a multi-national, multi-network distribution company.

Our industry is highly fragmented, and as such, we add considerable value to the industry by purchasing products from a large number of manufacturers and then distributing the products to our customer base on conditions that are more favorable than our customers could obtain on their own.

As of December 31, 2012, we operated 312 sales centers in North America and Europe through our three distribution networks:

- SCP Distributors LLC (SCP);
- Superior Pool Products LLC (Superior); and
- Horizon Distributors, Inc. (Horizon).

Superior and Horizon are both wholly owned subsidiaries of SCP, which is wholly owned by Pool Corporation.

Our Industry

We believe that the swimming pool industry is relatively young, with room for continued growth from increased penetration of new pools. Of the approximately 80 million homes in the United States that have the economic capacity and the yard space to have a swimming pool, approximately 12% currently have a pool. There are also significant growth opportunities in pool remodeling, due to the aging of the installed base of swimming pools, and pool equipment replacement, due to technological advancements and more energy efficient products. The irrigation and landscape industry shares many characteristics with the pool industry and we believe that it will realize long-term growth rates similar to the pool industry.

Favorable demographic and socioeconomic trends have positively impacted our industry and we believe these trends will continue to do so in the long term. These favorable trends include the following:

- long-term growth in housing units in warmer markets due to the population migration toward the south, which contributes to the growing installed base of pools that homeowners must maintain;
- increased homeowner spending on outdoor living spaces for relaxation and entertainment;
- consumers bundling the purchase of a swimming pool and other products, with new irrigation systems and landscaping often being key components to both pool installations and remodels; and
- consumers using more automation and control products, higher quality materials and other pool features that add to our sales opportunities over time.

Approximately 60% of consumer spending in the pool industry is for maintenance and minor repair of existing swimming pools. Maintaining proper chemical balance and the related upkeep and repair of swimming pool equipment, such as pumps, heaters, filters and safety equipment, creates a non-discretionary demand for pool chemicals, equipment and other related parts and supplies. We also believe cosmetic considerations such as a pool's

appearance and the overall look of backyard environments create an ongoing demand for other maintenance related goods and certain discretionary products.

We believe that the recurring nature of the maintenance and repair market has historically helped maintain a relatively consistent rate of industry growth. This characteristic, along with relatively consistent rates of inflationary price increases averaging 1% to 2% that have been passed on by manufacturers and distributors, has helped cushion the negative impact on revenues in periods when unfavorable economic conditions and softness in the housing market have adversely impacted pool construction and major replacement and refurbishment activities.

The following table reflects growth in the domestic installed base of in-ground and above-ground swimming pools over the past 11 years (based on Company estimates and information from 2011 P.K. Data, Inc. reports):

The replacement and refurbishment market includes major swimming pool remodeling and currently accounts for close to 30% of consumer spending in the pool industry. This activity is based on the aging of the installed base of pools with the timing of expenditures being more sensitive to economic factors that impact consumer spending compared to the maintenance and minor repair market.

New swimming pool construction comprises the bulk of the remaining consumer spending in the pool industry. The demand for new pools is driven by the perceived benefits of pool ownership including relaxation, entertainment, family activity, exercise and convenience. The industry competes for new pool sales against other discretionary consumer purchases such as kitchen and bathroom remodeling, boats, motorcycles, recreational vehicles and vacations. The industry is also affected by other factors including, but not limited to, consumer preferences or attitudes toward pool and landscape products for aesthetic, environmental, safety or other reasons.

The irrigation and landscape distribution business is split between residential and commercial markets, with the majority of sales related to the residential market. Irrigation and landscape maintenance activities account for approximately 40% of total spending in the irrigation industry, with the remaining 60% of spending related to irrigation construction and other discretionary related products. As such, our irrigation business is more heavily weighted toward new construction activities and the sale of discretionary related products compared to our pool business and is therefore more sensitive to economic factors that impact consumer spending.

Certain trends in the housing market, the availability of consumer credit and general economic conditions (as commonly measured by Gross Domestic Product or GDP) affect our industry, particularly new pool and irrigation system starts as well as the timing and extent of pool refurbishments and equipment replacement. We believe that over the long term, housing turnover and single family home value appreciation are the best indicators of new pool construction, with higher rates of home turnover and appreciation having a positive impact on new pool starts over time. We also believe that homeowners' access to consumer credit is a critical factor enabling the purchase of new swimming pools and irrigation systems. Similar to other discretionary purchases, replacement and refurbishment activities are more impacted by economic factors such as consumer confidence, GDP and unemployment.

The economic downturn between 2007 and 2009 had a significant impact on our industry, driving an approximate 80% reduction in new pool construction in the United States compared to peak levels in 2005 and also contributing to more than a 30% decline in replacement and refurbishment activities. While we estimate that new pool construction has increased from a low of roughly 45,000 new units in 2009 to approximately 60,000 new units in 2012, it is still down more than 70% compared to peak levels in 2005 and down approximately 60% from what we consider to be normalized levels.

Our base business sales growth in 2011 and 2012 was driven primarily by market share gains, but also reflected continued improvement in consumer discretionary expenditures and higher replacement activities given our estimated industry growth of 3% to 4% each year. Although general external market factors including consumer confidence, employment, consumer financing and economic growth have improved, we believe the current economic environment remains uncertain, especially in Europe due to the lingering sovereign debt and economic issues.

We believe there is potential for a significant sales recovery due to the build-up of deferred replacement and remodeling activity and our expectation for gradually normalized new pool and irrigation construction levels. We also expect that market conditions will continue to improve, enabling further recovery of replacement, remodeling and new construction activity to normalized levels over the next 7 to 10 years. We expect that the industry will realize an annual growth rate of approximately 4% to 7% over this time period before reverting back to 3% to 5% annual growth over the longer term.

Our industry is seasonal and weather is one of the principal external factors that affect our business. Peak industry activity occurs during the warmest months of the year, typically April through September. Unseasonable warming or cooling trends can delay or accelerate the start or end of the pool and landscape season, impacting our maintenance and repair sales. These impacts at the shoulders of the season are generally more pronounced in northern markets. Weather also impacts our sales of construction and installation products to the extent that above average precipitation, late spring thaws in northern markets and other extreme weather conditions delay, interrupt or cancel current or planned construction and installation activities.

Business Strategy and Growth

Our mission is to provide exceptional value to our customers and suppliers, in order to provide exceptional return to our shareholders while providing exceptional opportunities to our employees. Our three core strategies are as follows:

- to promote the growth of our industry;
- to promote the growth of our customers' businesses; and
- to continuously strive to operate more effectively.

We promote the growth of the industry through various advertising and promotional programs intended to raise consumer awareness of the benefits and affordability of pool ownership, the ease of pool maintenance and the many ways in which a pool and the surrounding spaces may be enjoyed beyond swimming. These programs include media advertising, industry oriented website development such as www.swimmingpool.com®, public relations campaigns and other online marketing initiatives including social media. We use these programs as tools to educate consumers and lead prospective pool owners to our customers.

We promote the growth of our customers' businesses by offering comprehensive support programs that include promotional tools and marketing support to help our customers generate increased sales. Our uniquely tailored programs include such features as customer lead generation, personalized websites, brochures, direct mail, marketing campaigns and business development training. As a customer service, we also provide certain retail store customers assistance with all aspects of their business including site selection, store layout and design, business management system implementation, comprehensive product offering selections and efficient ordering and inventory management processes.

Growth initiatives related to our various customer programs include our retail brand licensing program and our rewards program designed for pool service professionals. Under our brand licensing program, customers make commitments to meet minimum purchase levels, stock a minimum of nine specific product categories and operate within certain guidelines (including weekend hour requirements). Our rewards program aligns with our replacement parts growth initiative and provides customers with monthly coupons and other special discounts on parts product purchases. In addition to these programs, we also feature consumer showrooms in over 70 of our sales centers and host an annual retail summit.

In addition to our efforts aimed at industry and customer growth, we strive to operate more effectively by continuously focusing on improvements in our operations such as product sourcing, procurement and logistics

initiatives, adoption of enhanced business practices and improved working capital management. Other key internal growth initiatives include the continued expansion of both our product offerings (as described in the "Customers and Products" section below) and our distribution networks.

We have grown our distribution networks through acquisitions, new sales center openings and the expansion of existing sales centers. Since the beginning of 2008, we completed 12 acquisitions consisting of 33 sales centers (net of sales center closings and consolidations within one year of acquisition). These acquired locations included six sales centers added to our international SCP network ahead of the 2012 season, including one sales center in Germany, four sales centers in British Columbia, Canada and one sales center in Ontario, Canada. Given the more stabilized external environment, we have increased our focus on new sales center openings, including satellite locations that enable us to more effectively serve customers in existing markets. We opened 9 new sales centers in 2012 and we expect to open between 7 and 10 new sales centers in 2013.

We plan to continue to selectively expand our swimming pool and irrigation distribution networks via both acquisitions and new sales center openings. We plan to make strategic acquisitions to further penetrate existing markets and expand into both new geographic markets and new product categories. For additional discussion of our recent acquisitions, see Note 2 of "Notes to Consolidated Financial Statements," included in Item 8 of this Form 10-K.

We believe that our high customer service levels and expanded product offerings have enabled us to gain market share historically, including the period between 2007 and 2009 when our industry contracted, and that these market share gains continued in 2011 and 2012. Going forward, we expect to realize sales growth higher than the industry average due to further increases in market share and continued expansion of our product offerings.

We estimate that price inflation has averaged 1% to 2% annually in our industry over the past 10 years. We generally pass industry price increases through the supply chain and make strategic volume inventory purchases ahead of vendor price increases. In 2012, we estimate that price inflation was consistent with the historical average, while in 2011 price inflation was approximately 2%. We anticipate price inflation will vary some by product lines, but will approximate the long-term average overall in 2013.

Customers and Products

We serve roughly 80,000 customers, none of which account for more than 1% of our sales. We primarily serve five types of customers:

- swimming pool remodelers and builders;
- specialty retailers that sell swimming pool supplies;
- swimming pool repair and service businesses;
- landscape construction and maintenance contractors; and
- government, golf courses and like commercial customers.

The majority of these customers are small, family owned businesses with relatively limited capital resources. The recent economic environment has had the greatest impact on swimming pool remodelers and builders and landscape construction companies. We have seen a modest contraction in our customer base in these segments over the last several years.

We conduct our operations through 312 sales centers in North America and Europe. Our primary markets, with the highest concentration of swimming pools, are California, Texas, Florida and Arizona, representing approximately 50% of our net sales in 2012. We use a combination of local and international sales and marketing personnel to promote the growth of our business and develop and strengthen our customers' businesses. Our sales and marketing personnel focus on developing customer programs and promotional activities, creating and enhancing sales management tools and providing product and market expertise. Our local sales personnel work from our sales centers and are charged with understanding and meeting our customers' specific needs.

We offer our customers more than 160,000 national brand and Pool Corporation branded products. We believe that our selection of pool equipment, supplies, chemicals, replacement parts, irrigation and landscape products and other pool construction and recreational products is the most comprehensive in the industry. The products we sell can be categorized as follows:

- maintenance products such as chemicals, supplies and pool accessories;
- repair and replacement parts for pool equipment, such as cleaners, filters, heaters, pumps and lights;
- packaged pool kits including walls, liners, braces and coping for in-ground and above-ground pools;
- pool equipment and components for new pool construction and the remodeling of existing pools;
- irrigation and landscape products, including irrigation system components and professional lawn care equipment and supplies; and
- other pool construction and recreational products, which consist of a number of product categories and includes:

- building materials used for pool installations and remodeling, such as concrete, plumbing and electrical components and both functional and decorative pool surface and decking materials; and
- discretionary recreational and related outdoor lifestyle products that enhance consumers' use and enjoyment of outdoor living spaces, such as spas, grills and components for outdoor kitchens.

We track and monitor the majority of our sales by product lines and categories to provide support for sales and marketing efforts and for consideration in incentive plan programs. We currently have over 400 product lines and over 50 product categories. Based on our 2012 product classifications, sales for our pool and spa chemicals product category as a percentage of total net sales was 15% in 2012, 16% in 2011 and 17% in 2010. While market share gains drove chemical volume growth of 4% in 2012 and 6% in 2011, chemical sales growth did not keep pace with our overall sales growth due to price deflation of approximately 2% in 2011 and lingering price deflation for certain chemical products in 2012. No other product category accounted for 10% or more of total net sales in any of the last three fiscal years.

We categorize our maintenance, repair and replacement products into the following two groupings:

- maintenance and minor repair (non-discretionary); and
- major refurbishment and replacement (partially discretionary).

In 2012, the sale of maintenance and minor repair products accounted for approximately 60% of our sales and gross profits while approximately 40% of sales and gross profits were derived from the refurbishment, replacement, construction and installation (equipment, materials, plumbing, electrical, etc.) of swimming pools. This reflected a shift back toward more sales of major refurbishment and replacement products due to the modest recovery of these activities since levels reached a low point in 2009. Between 2005 and early 2010, sales of maintenance and minor repair products had increased to approximately 70% of our sales and gross profits due to the significant declines in new pool construction. Prior to this industry downturn, just over 50% of our total sales and gross profits were related to maintenance and minor repair products.

Since our acquisition of National Pool Tile (NPT) in 2008, we have expanded the number of sales center locations that offer NPT tile and composite pool finish products from the original 14 locations to over 70 locations. These locations feature consumer showrooms where swimming pool dealers and homeowners can view and select pool components including tile, decking materials and interior pool finishes in various styles and grades. Another key product initiative has been the expansion of our replacement parts offerings. These product initiatives, along with the continued expansion of our Pool Corporation branded products, have contributed to gross margin improvements over time. Throughout 2012, we experienced product and customer mix changes, particularly related to sales growth in higher value, lower margin products such as variable speed pumps, motorized pool lifts and pool heaters. We also observed faster sales growth from larger, lower margin customers. Our strategic plan considers how these recent trends can contribute to operating income growth over the next several years.

Products related to pool construction and remodeling have been an important factor in our historical base business sales growth. While sales of these products declined between 2007 and 2009 as the majority of these products are discretionary in nature, we realized some sales growth in 2010 followed by double digit sales growth in 2011 and 2012 due to our ongoing expansion of these product offerings and the gradual improvement in new construction, remodeling and economic trends. We continue to identify new related product categories and we typically introduce new categories each year in select markets. We then evaluate the performance in these test markets and focus on those product categories that we believe exhibit the best long-term growth potential. We expect to realize continued sales growth for these types of product offerings by expanding the number of locations that offer these products, increasing the number of products offered at certain locations and continuing a modest broadening of these product offerings on a company-wide basis.

Operating Strategy

We distribute swimming pool supplies, equipment and related leisure products domestically through our SCP and Superior networks and internationally through our SCP network, while we distribute irrigation and landscape products through our Horizon network. We adopted the strategy of operating two distinct distribution networks within the U.S. swimming pool marketplace primarily for two reasons:

- to offer our customers a choice of distinctive product selections, locations and service personnel; and
- to increase the level of customer service and operational efficiency provided by the sales centers in each network by promoting healthy competition between the two networks.

We evaluate our sales centers based upon their performance relative to predetermined standards that include both financial and operational measures. Our corporate support groups provide our field operations with various services,

such as developing and coordinating customer and vendor related programs, information systems support and expert resources to help them achieve their goals. We believe our incentive programs and feedback tools, along with the competitive nature of our internal networks, stimulate and enhance employee performance.

Distribution

Our sales centers are located within population centers near customer concentrations, typically in industrial, commercial or mixed use zones. Customers may pick up products at any sales center location, or we may deliver products to their premises or job sites via our trucks or third party carriers.

Our sales centers maintain well-stocked inventories to meet customers' immediate needs. We utilize warehouse management technology to optimize receiving, inventory control, picking, packing and shipping functions.

We also operate six centralized shipping locations (CSLs) that redistribute products we purchase in bulk quantities to our sales centers or in some cases, directly to customers. Our CSLs are regional locations that carry a wide range of traditional swimming pool, irrigation and related construction products.

Purchasing and Suppliers

We enjoy good relationships with our suppliers, who generally offer competitive pricing, return policies and promotional allowances. It is customary in our industry for certain manufacturers to offer seasonal terms to qualifying purchasers such as POOL. These terms typically allow us to place orders in the fall prior to any seasonal price increases, take delivery of product during the off-season months and pay for these purchases in the spring or early summer.

Our preferred vendor program encourages our distribution networks to stock and sell products from a smaller number of vendors to optimize profitability and shareholder return. We also work closely with our vendors to develop programs and services to better meet the needs of our customers and to concentrate our inventory investments. These practices, together with a more comprehensive service offering, have positively impacted our selling margins and our returns on inventory investments.

We regularly evaluate supplier relationships and consider alternate sourcing to assure competitive cost, service and quality standards. Our largest suppliers include Pentair Water Pool and Spa, Inc., Hayward Pool Products, Inc. and Zodiac Pool Systems, Inc., which accounted for approximately 18%, 11% and 8%, respectively, of the cost of products we sold in 2012.

Competition

Based on industry knowledge and available data, management believes we are the largest wholesale distributor of swimming pool and related backyard products and the only truly national wholesale distributor focused on the swimming pool industry in the United States. We are also one of the top three distributors of irrigation and landscape products in the United States. We face intense competition from many regional and local distributors in our markets and from one national wholesale distributor of irrigation and landscape products. We also face competition, both directly and indirectly, from mass-market retailers and large pool supply retailers (both store-based and internet) who buy directly from manufacturers and, to a lesser extent, from other distributors.

Some geographic markets we serve, particularly the five largest and higher pool density markets of California, Florida, Texas, Arizona and New York, have a greater concentration of competition than others. Barriers to entry in our industry are relatively low. We believe that the principal competitive factors in swimming pool and landscape supply distribution are:

- the breadth and availability of products offered;
- the quality and level of customer service;
- the breadth and depth of sales and marketing programs;
- consistency and stability of business relationships with customers and suppliers;
- competitive product pricing; and
- access to commercial credit to finance business working capital.

We believe that we generally compete favorably with respect to each of these factors.

Seasonality and Weather

For a discussion regarding seasonality and weather, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Seasonality and Quarterly Fluctuations," of this Form 10-K.

Environmental, Health and Safety Regulations

Our business is subject to regulation under local fire codes and international, federal, state and local environmental and health and safety requirements, including regulation by the Environmental Protection Agency, the Consumer Product Safety Commission, the Department of Transportation, the Occupational Safety and Health Administration, the National Fire Protection Agency and the International Maritime Organization. Most of these requirements govern the packaging, labeling, handling, transportation, storage and sale of chemicals and fertilizers. We store certain types of chemicals and/or fertilizers at each of our sales centers and the storage of these items is strictly regulated by local fire codes. In addition, we sell algaecides and pest control products that are regulated as pesticides under the Federal Insecticide, Fungicide and Rodenticide Act and various state pesticide laws. These laws are primarily related to labeling, annual registration and licensing.

Employees

We employed approximately 3,400 people at December 31, 2012. Given the seasonal nature of our business, our peak employment period is the summer and depending on expected sales levels, we add 200 to 500 employees to our work force to meet seasonal demand.

Intellectual Property

We maintain both domestic and foreign registered trademarks, primarily for our private label products, that are important to our current and future business operations. We also own rights to numerous internet domain names.

Geographic Areas

Net sales by geographic region were as follows for the past three fiscal years (in thousands):

	Year Ended December 31,		
	2012	2011	2010
United States	$1,770,362	$1,608,874	$1,450,959
International	183,612	184,444	162,787
	$1,953,974	$1,793,318	$1,613,746

Net property and equipment by geographic region was as follows (in thousands):

	December 31,		
	2012	2011	2010
United States	$42,443	$37,782	$27,337
International	4,123	3,612	3,348
	$46,566	$41,394	$30,685

Available Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge on our website at www.poolcorp.com as soon as reasonably practical after we electronically file such reports with, or furnish them to, the Securities and Exchange Commission (SEC).

Additionally, we have adopted a Code of Business Conduct and Ethics that applies to all of our employees, officers and directors, and is available on our website at www.poolcorp.com.

Item 1A. Risk Factors

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

Our disclosure and analysis in this report contains forward-looking information that involves risks and uncertainties. Our forward looking statements express our current expectations or forecasts of possible future results or events, including projections of future performance, statements of management’s plans and objectives, future contracts, and forecasts of trends and other matters. Forward-looking statements speak only as of the date of this filing, and we undertake no obligation to update or revise such statements to reflect new circumstances or unanticipated events as

they occur. You can identify these statements by the fact that they do not relate strictly to historic or current facts and often use words such as “anticipate”, “estimate”, “expect”, “believe”, “will likely result”, “outlook”, “project” and other words expressions of similar meaning. No assurance can be given that the results in any forward-looking statements will be achieved and actual results could be affected by one or more factors, which could cause them to differ materially. For these statements, we claim the protection of the safe harbor for forward looking statements contained in the Private Securities Litigation Reform Act.

Risk Factors

Certain factors that may affect our business and could cause actual results to differ materially from those expressed in any forward looking statements include the following:

The demand for our swimming pool, irrigation and related outdoor lifestyle products has been and may continue to be adversely affected by unfavorable economic conditions.

In economic downturns, the demand for swimming pool, irrigation and related outdoor lifestyle products may decline as discretionary consumer spending, the growth rate of pool eligible households and swimming pool construction decline. Although maintenance products and repair and replacement equipment that must be purchased by pool owners to maintain existing swimming pools currently account for approximately 87% of our net sales and gross profits, the growth of this portion of our business depends on the expansion of the installed pool base and could also be adversely affected by decreases in construction activities similar to the trends between late 2006 and early 2010. A weak economy may also cause consumers to defer discretionary replacement and refurbish activity. In addition, even in generally favorable economic conditions, severe and/or prolonged downturns in the housing market could have a material adverse impact on our financial performance. Such downturns expose us to certain additional risks, including but not limited to the risk of customer closures or bankruptcies, which could shrink our potential customer base and inhibit our ability to collect on those customers' receivables.

We believe that homeowners' access to consumer credit is a critical factor enabling the purchase of new pool and irrigation systems. The recent unfavorable economic conditions and downturn in the housing market have resulted in significant tightening of credit markets, which has limited the ability of consumers to access financing for new swimming pools and irrigation systems. If these trends continue or worsen, many consumers will likely not be able to obtain financing for pool and irrigation projects, which could negatively impact our sales of construction related products.

We are susceptible to adverse weather conditions.

Weather is one of the principal external factors affecting our business. For example, unseasonably late warming trends in the spring or early cooling trends in the fall can shorten the length of the pool season. Also, unseasonably cool weather or extraordinary rainfall during the peak season can decrease swimming pool use, installation and maintenance, as well as landscape installations and maintenance. These weather conditions adversely affect sales of our products. Drought conditions or water management initiatives may lead to municipal ordinances related to water use restrictions, which could result in decreased pool and irrigation system installations and negatively impact our sales. While warmer weather conditions favorably impact our sales, global warming trends and other significant climate changes can create more variability in the short-term or lead to other unfavorable weather conditions that could adversely impact our sales or operations. For a discussion regarding seasonality and weather, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Seasonality and Quarterly Fluctuations," of this Form 10-K.

Our distribution business is highly dependent on our ability to maintain favorable relationships with suppliers.

As a distribution company, maintaining favorable relationships with our suppliers is critical to our success. We believe that we add considerable value to the swimming pool and irrigation and landscape supply chains by purchasing products from a large number of manufacturers and distributing the products to a highly fragmented customer base on conditions that are more favorable than these customers could obtain on their own. We believe that we currently enjoy good relationships with our suppliers, who generally offer us competitive pricing, return policies and promotional allowances. However, our inability to maintain favorable relationships with our suppliers could have

an adverse effect on our business.

Our largest suppliers are Pentair Water Pool and Spa, Inc., Hayward Pool Products, Inc. and Zodiac Pool Systems, Inc., which accounted for approximately 18%, 11% and 8%, respectively, of the costs of products we sold in 2012. A decision by several suppliers, acting in concert, to sell their products directly to retailers or other end users of their products, bypassing distribution companies like ours, would have an adverse effect on our business. Additionally, the loss of a single significant supplier due to financial failure or a decision to sell exclusively to retailers or end-use consumers could also adversely affect our business. We dedicate considerable resources to promote the benefits and affordability of pool ownership, which we believe significantly benefits our swimming pool customers and suppliers.

We face intense competition both from within our industry and from other leisure product alternatives.

We face competition from both inside and outside of our industry. Within our industry, we compete against various regional and local distributors and, to a lesser extent, mass market retailers, large pool or landscape supply retailers and internet retailers. Outside of our industry, we compete with sellers of other leisure product alternatives, such as boats and motor homes, and with other companies who rely on discretionary homeowner expenditures, such as home remodelers. New competitors may emerge as there are low barriers to entry in our industry. Some geographic markets that we serve, particularly our four largest, higher density markets in California, Texas, Florida and Arizona, representing approximately 50% of our net sales in 2012, also tend to be more competitive than others.

More aggressive competition by mass merchants and large pool or landscape supply retailers could adversely affect our sales.

Mass market retailers today carry a limited range of, and devote a limited amount of shelf space to, merchandise and products targeted to our industry. Historically, mass market retailers have generally expanded by adding new stores and product breadth, but their product offering of pool and landscape related products has remained relatively constant. Should mass market retailers increase their focus on the pool or professional landscape industries, or increase the breadth of their pool and landscape related product offerings, they may become a more significant competitor for our direct customers and end-use consumers which could have an adverse impact on our business. We may face additional competitive pressures if large pool or landscape supply retailers look to expand their customer base to compete more directly within the distribution channel.

We depend on key personnel.

We consider our employees to be the foundation for our growth and success. As such, our future success depends in large part on our ability to attract, retain and motivate qualified personnel, including our executive officers and key management personnel. If we are unable to attract and retain key personnel, our operating results could be adversely affected.

Past growth may not be indicative of future growth.

Historically, we have experienced substantial sales growth through acquisitions, market share gains and new sales center openings that have increased our size, scope and geographic distribution. Since the beginning of 2008, we completed 12 acquisitions consisting of 33 sales centers (net of sales center closings and consolidations within one year of acquisition). While we contemplate continued growth through acquisitions and internal expansion, no assurance can be made as to our ability to:

- penetrate new markets;
- identify appropriate acquisition candidates;
- complete acquisitions on satisfactory terms and successfully integrate acquired businesses;
- obtain financing;
- generate sufficient cash flows to support expansion plans and general operating activities;
- maintain favorable supplier arrangements and relationships; and
- identify and divest assets which do not continue to create value consistent with our objectives.

If we do not manage these potential difficulties successfully, our operating results could be adversely affected.

Our business is highly seasonal.

In 2012, approximately 66% of our net sales and over 100% of our operating income were generated in the second and third quarters of the year. These quarters represent the peak months of both swimming pool use, installation, remodeling and repair, and landscape installations and maintenance. Our sales are substantially lower during the first and fourth quarters of the year, when we may incur net losses.

The nature of our business subjects us to compliance with environmental, health, transportation and safety regulations.

We are subject to regulation under federal, state and local environmental, health, transportation and safety requirements, which govern such things as packaging, labeling, handling, transportation, storage and sale of chemicals and fertilizers. For example, we sell algaecides and pest control products that are regulated as pesticides under the Federal Insecticide, Fungicide and Rodenticide Act and various state pesticide laws. These laws are primarily related to labeling, annual registration and licensing.

Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties or the imposition of injunctive relief. Moreover, compliance with such laws and regulations in the future could prove to be costly, and there can be no assurance that we will not incur such costs in material amounts. These laws and regulations have changed substantially and rapidly over the last 25 years and we anticipate that there will be continuing changes. The clear trend in environmental, health, transportation and safety regulation is to place more restrictions and limitations on activities that impact the environment, such as the use and handling of chemical substances. Increasingly, strict restrictions and limitations have resulted in higher operating costs for us and it is possible that the costs of compliance with such laws and regulations will continue to increase. We will attempt to anticipate future regulatory requirements that might be imposed and we will plan accordingly to remain in compliance with changing regulations and to minimize the costs of such compliance.

We store chemicals, fertilizers and other combustible materials that involve fire, safety and casualty risks.

We store chemicals and fertilizers, including certain combustible, oxidizing compounds, at our sales centers. A fire, explosion or flood affecting one of our facilities could give rise to fire, safety and casualty losses and related liability claims. We maintain what we believe is prudent insurance protection. However, we cannot guarantee that our insurance coverage will be adequate to cover future claims that may arise or that we will be able to maintain adequate insurance in the future at rates we consider reasonable. Successful claims for which we are not fully insured may adversely affect our working capital and profitability. In addition, changes in the insurance industry have generally led to higher insurance costs and decreased availability of coverage.

We conduct business internationally, which exposes us to additional risks.

Our international operations expose us to certain additional risks, including:

- difficulty in staffing international subsidiary operations;
- different political and regulatory conditions;
- currency fluctuations;
- adverse tax consequences; and
- dependence on other economies.

We rely on manufacturers and other suppliers to provide us with the products we sell and distribute. As we increase the number of Pool Corporation branded products we distribute, our exposure to potential liability claims may increase. The risk of claims may also be greater with respect to products manufactured by third-party suppliers outside the United States, particularly in China. Uncertainties with respect to foreign legal systems may adversely affect us in resolving claims arising from our foreign sourced products. Even if we are successful in defending any claim relating to the products we distribute, claims of this nature could negatively impact customer confidence in our products and our company.

For foreign sourced products, we may be subject to certain trade restrictions that would prevent us from obtaining products and there is also a greater risk that we may not be able to access products in a timely and efficient manner. Fluctuations in other factors relating to international trade, such as tariffs, transportation costs and inflation are additional risks for our international operations.

A terrorist attack or the threat of a terrorist attack could have a material adverse effect on our business.

Discretionary spending on leisure product offerings such as ours is generally adversely affected during times of economic or political uncertainty. The potential for terrorist attacks, the national and international responses to terrorist attacks, and other acts of war or hostility could create these types of uncertainties and negatively impact our

business for the short or long term in ways that cannot presently be predicted.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease the POOL corporate offices, which consist of approximately 53,000 square feet of office space in Covington, Louisiana, from an entity in which we have a 50% ownership interest. We own three sales center facilities in Florida and one in Texas. We lease all of our other properties and the majority of our leases have three to seven year terms.

As of December 31, 2012, we had 11 leases with remaining terms longer than seven years that expire between 2020 and 2027. Most of our leases contain renewal options, some of which involve rent increases. In addition to minimum rental payments, which are set at competitive rates, certain leases require reimbursement for taxes, maintenance and insurance.

Our sales centers range in size from approximately 2,000 square feet to 60,000 square feet and generally consist of warehouse, counter, display and office space. Our centralized shipping locations (CSLs) range in size from approximately 34,000 square feet to 78,000 square feet.

We believe that our facilities are well maintained, suitable for our business and occupy sufficient space to meet our operating needs. As part of our normal business, we regularly evaluate sales center performance and site suitability and may relocate a sales center or consolidate two locations if a sales center is redundant in a market, underperforming or otherwise deemed unsuitable. We do not believe that any single lease is material to our operations.

The table below summarizes the changes in our sales centers during the year ended December 31, 2012:

Network	12/31/11	New Locations	Consolidated and Closed Locations (1)	Acquired Locations (2)	Converted Locations (3)	12/31/12
SCP	150	5	—	—	1	156
Superior	62	3	—	—	—	65
Horizon	60	—	—	—	(1)	59
Total Domestic	272	8	—	—	—	280
SCP International	26	1	—	5	—	32
Total	298	9	—	5	—	312

(1) Consolidated sales centers are those locations where we expect to transfer the majority of the existing business to our nearby sales center locations.

(2) We completed two acquisitions in Canada in 2012. We do not plan to close or consolidate any of these acquired sales centers.

(3) In 2012, we converted one existing sales center in Utah from our Horizon network to our SCP network.

The table below identifies the number of sales centers in each state, territory or country by distribution network as of December 31, 2012:

Location	SCP	Superior	Horizon	Total
United States				
California	24	22	17	63
Florida	33	6	4	43
Texas	16	4	10	30
Arizona	7	5	10	22
Georgia	7	2	—	9
Nevada	2	3	4	9
Tennessee	4	3	—	7
Washington	1	—	6	7
Alabama	4	2	—	6
New York	6	—	—	6
Louisiana	5	—	—	5
New Jersey	3	2	—	5
Ohio	2	3	—	5
Colorado	1	1	2	4
Illinois	3	1	—	4
Indiana	2	2	—	4
Missouri	3	1	—	4
North Carolina	3	1	—	4
Oregon	1	—	3	4
Pennsylvania	3	1	—	4
South Carolina	3	1	—	4
Idaho	1	—	2	3
Oklahoma	2	1	—	3
Virginia	2	1	—	3
Arkansas	2	—	—	2
Kansas	2	—	—	2
Maryland	1	—	1	2
Massachusetts	2	—	—	2
Michigan	2	—	—	2
Minnesota	1	1	—	2
Connecticut	1	—	—	1
Hawaii	1	—	—	1
Iowa	1	—	—	1
Kentucky	—	1	—	1
Mississippi	1	—	—	1
Nebraska	1	—	—	1
New Mexico	1	—	—	1
Puerto Rico	1	—	—	1
Utah	1	—	—	1
Wisconsin	—	1	—	1
Total United States	156	65	59	280
International				
Canada	15	—	—	15
France	5	—	—	5
Mexico	3	—	—	3

Portugal	3	—	—	3
United Kingdom	2	—	—	2
Belgium	1	—	—	1
Germany	1	—	—	1
Italy	1	—	—	1
Spain	1	—	—	1
Total International	32	—	—	32
Total	188	65	59	312

Item 3. 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. Litigation can be expensive and disruptive to normal business operations.

As previously disclosed in our Form 10-Q filed on July 27, 2012, a number of purported anti-trust class action suits have been filed against us in various United States District Courts. The cases were transferred and consolidated before the Judicial Panel for Multidistrict Litigation, MDL Docket No. 2328, and are presently pending in the Eastern District of Louisiana. On June 14, 2012, indirect purchaser plaintiffs, purporting to represent indirect purchasers of swimming pool products in Arizona, California, Florida and Missouri, filed a first amended class action complaint. On September 5, 2012, they filed a second amended complaint. On June 29, 2012, direct purchaser plaintiffs, who are current or former customers, filed a consolidated amended class action complaint, which added three defendants, Hayward Industries Inc., Pentair Water Pool and Spa, Inc. and Zodiac Pool Systems, Inc. The amended complaints seek unspecified compensatory and enhanced damages, interest, costs and fees and other equitable relief. We believe the amended complaints are without merit and we intend to vigorously defend ourselves.

We are subject to regulation under federal, state and local environmental, health transportation and safety requirements, which govern such things as packaging, labeling, handling, transportation, storage and sale of chemicals. As previously disclosed in our Form 10-Q filed on July 27, 2012, in the second quarter of 2012 the Office of the District Attorney for the County of Riverside, California, made a monetary demand upon us for civil penalties, alleging noncompliance in the past with local and state hazardous waste handling, storage and transportation laws, fire and building code regulations and California Business & Professions Code Section 17200, primarily relating to liquid chlorine and muriatic acid. We are engaged in discussions with Riverside County regarding resolution of these matters, but we are unable to predict the outcome. Based on information currently available to us, we do not expect this matter to have a material adverse effect on our financial condition, results of operations or cash flows.

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 or other claims and litigation not discussed above will have a material adverse impact on our financial condition, results of operations or cash flows. Our view of these matters may change in the future as the litigation and related events unfold.

Item 4. Mine Safety Disclosures

Not applicable.

PART II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the NASDAQ Global Select Market under the symbol "POOL". On February 13, 2013, there were approximately 12,030 holders of record of our common stock. The table below sets forth the high and low closing sales prices of our common stock as well as dividends declared for each quarter during the last two fiscal years.

	High	Low	Dividends Declared
Fiscal 2012			
First Quarter	$38.31	$30.12	$0.14
Second Quarter	40.46	34.98	0.16
Third Quarter	41.63	36.64	0.16
Fourth Quarter	43.00	39.80	0.16
Fiscal 2011			
First Quarter	$26.09	$22.65	$0.13
Second Quarter	30.98	24.40	0.14
Third Quarter	30.63	22.60	0.14
Fourth Quarter	30.57	24.94	0.14

We initiated quarterly dividend payments to our shareholders in the second quarter of 2004 and we have continued payments in each subsequent quarter. Our Board of Directors (our Board) has increased the dividend amount seven times including in the fourth quarter of 2004, annually in the second quarter of 2005 through 2008 and in the second quarters of 2011 and 2012. Future dividend payments will be at the discretion of our Board, after considering various factors, including our earnings, capital requirements, financial position, contractual restrictions and other relevant business considerations. We cannot assure shareholders or potential investors that dividends will be declared or paid any time in the future if our Board determines that there is a better use of those funds.

Stock Performance Graph

The information included under the caption "Stock Performance Graph" in this Item 5 of this Annual Report on Form 10-K is not deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 (the 1934 Act) or to the liabilities of Section 18 of the 1934 Act, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the 1934 Act, except to the extent we specifically incorporate it by reference into such a filing.

The following graph compares the total stockholder return on our common stock for the last five fiscal years with the total return on the NASDAQ Index and the S&P MidCap 400 Index for the same period, in each case assuming the investment of $100 on December 31, 2007 and the reinvestment of all dividends. We believe the S&P MidCap 400 Index includes companies with market capitalization comparable to ours. Additionally, we chose the S&P MidCap 400 Index for comparison, as opposed to an industry index, because we do not believe that we can reasonably identify a peer group or a published industry or line-of-business index that contains companies in a similar line of business.

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	Base Period	Indexed Returns Years Ending				
Company / Index	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12
Pool Corporation	$100.00	$92.96	$101.68	$123.07	$167.66	$239.50
S&P MidCap 400 Index	100.00	63.77	87.61	110.94	109.02	128.51
NASDAQ Index	100.00	59.03	82.25	97.32	98.63	110.78

Purchases of Equity Securities

The table below summarizes the repurchases of our common stock in the fourth quarter of 2012.

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)
October 1 – October 31, 2012	48,285	$42.94	—	$114,896,445
November 1 – November 30, 2012	307,305	$40.63	307,305	$102,412,124
December 1 – December 31, 2012	293,002	$41.34	271,393	$91,192,959
Total	648,592	$41.12	578,698	

(1) These shares may include shares of our common stock surrendered to us by employees in order to satisfy tax withholding obligations in connection with certain exercises of employee stock options and/or the exercise price of such options granted under our share-based compensation plans. Shares surrendered totaled 48,285 shares in October and 21,609 shares in December. There were no shares surrendered for this purpose in November.

(2) In May 2011, our Board authorized a new $100.0 million share repurchase program that replaced our previous share repurchase program. In August 2012, our Board authorized an additional $100.0 million share repurchase program. Both of these programs are for the repurchase of shares of our common stock in the open market at prevailing market prices or in privately negotiated transactions.

(3) In 2012, we purchased a total of $77.0 million, or 2,042,272 shares, at an average price of $37.72 per share. As of February 20, 2013, $89.5 million of the authorized amount remained available under our current share repurchase program.

Item 6. Selected Financial Data

The table below sets forth selected financial data from the Consolidated Financial Statements. You should read this information in conjunction with the discussions in Item 7 of this Form 10-K and with the Consolidated Financial Statements and accompanying Notes in Item 8 of this Form 10-K.

(in thousands, except per share data)	Year Ended December 31, (1)				
	2012 (2)	2011	2010	2009 (3)	2008
Statement of Income Data					
Net sales	$1,953,974	$1,793,318	$1,613,746	$1,539,794	$1,783,683
Operating income	144,869	125,067	101,245	88,440	115,476
Net income	81,972	71,993	57,638	19,202	56,956
Earnings per share:					
Basic	$1.75	$1.49	$1.17	$0.39	$1.19
Diluted	$1.71	$1.47	$1.15	$0.39	$1.17
Cash dividends declared per common share	$0.62	$0.55	$0.52	$0.52	$0.51
Balance Sheet Data					
Working capital (4)	$295,100	$305,467	$265,054	$230,804	$294,552
Total assets (4)	780,576	770,902	728,545	743,099	830,906
Total long-term debt, including current portion	230,882	247,300	198,700	248,700	307,000
Stockholders' equity	281,623	279,746	285,182	252,187	241,734
Other					
Base business sales growth/(decline) (5)	7 %	10 %	2 %	(15)%	(9)%
Number of sales centers	312	298	291	287	288

(1) During the years 2008 to 2012, we completed 12 acquisitions consisting of 33 sales centers (net of sales center closings and consolidations within one year of acquisition). For information about our recent acquisitions, see Note 2 of “Notes to Consolidated Financial Statements,” included in Item 8 of this Form 10-K. Our results were negatively impacted between 2008 and 2010 due to adverse external market conditions, which included downturns in the housing market and overall economy that led to significant declines in pool and irrigation construction activities and deferred discretionary replacement purchases by consumers.

(2) In 2012, operating income, net income and earnings per share amounts were significantly impacted by a $6.9 million non-cash goodwill impairment charge related to our United Kingdom reporting unit. The impact of this impairment charge on earnings was $0.14 per diluted share.

(3) The 2009 net income and earnings per share amounts include the impact of a $26.5 million equity loss that we recognized in September 2009 related to our pro rata share of Latham Acquisition Corporation’s (LAC) non-cash goodwill and other intangible asset impairment charge. The impact of this impairment charge on earnings was $0.54 per diluted share. The recognized loss resulted in the full write-off of our equity method investment in LAC. As of January 2010, we no longer had an equity interest in LAC.

(4) For comparative purposes, we reclassified certain amounts in the 2011 financial statements to conform to the 2012 presentation. For additional information, see Note 1 and Note 7 of "Notes to Consolidated Financial Statements," included in Item 8 of this Form 10-K.

(5)

For a discussion regarding our calculation of base business sales, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations - RESULTS OF OPERATIONS,” of this Form 10-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

In our discussion of results of operations below, adjusted operating income, adjusted net income and adjusted diluted earnings per share (EPS) for all periods exclude the Goodwill impairment line item on the Consolidated Statements of Income. We have provided these adjusted amounts because we believe it helps investors assess our year-over-year operating performance.

2012 FINANCIAL OVERVIEW

Financial Results

Solid performance in 2012 produced record results, surpassing our objectives. Net sales increased 9% compared to 2011, including a 7% increase in base business sales. Base business sales growth was driven by market share gains, continued improvement in consumer discretionary expenditures, growth in the installed base of pools and some price inflation, partially offset by unfavorable currency fluctuations of approximately 1%.

Gross profit increased 7% compared to 2011, while gross profit as a percentage of net sales (gross margin) decreased 60 basis points to 29.0%. This decrease reflects unfavorable product and customer mix changes and competitive pricing pressures. Gross margin in 2012 was also comparatively lower than 2011 gross margin due to the benefits realized in 2011 from opportunistic inventory purchases.

Selling and administrative expenses (operating expenses) for 2012 increased 3%, with base business operating expenses essentially flat year over year. Decreases in employee incentive costs, lower bad debt expense and the impact of currency fluctuations were offset by higher professional fees and increases in wages and employee insurance.

During the third quarter of 2012, we recorded a non-cash goodwill impairment charge of $6.9 million, equal to the total goodwill carrying amount of our United Kingdom reporting unit. This impairment charge had a $0.14 negative impact on diluted EPS for the year ended December 31, 2012. Since this goodwill impairment charge was not deductible for tax purposes, our effective income tax rate for the year ended December 31, 2012 was higher than normal. During the fourth quarter of 2011, we recorded a non-cash goodwill impairment charge of $1.6 million resulting from our annual goodwill impairment analysis. This impairment charge had a $0.03 negative impact on diluted EPS for the year ended December 31, 2011.

Operating income for the year improved 16%, while operating income as a percentage of net sales (operating margin) increased 40 basis points to 7.4%. Excluding goodwill impairment in both years, adjusted operating income for 2012 increased 20% and adjusted operating margin increased 70 basis points to 7.8% for the year ended December 31, 2012. Net interest expense decreased $1.5 million due to the impacts of changes in estimated interest expense related to uncertain tax positions and foreign currency translation gains and losses.

Net income increased 14% compared to 2011, while earnings per share was up 16% to $1.71 per diluted share. Adjusted net income for 2012 increased 21% and adjusted EPS was up 23% to $1.85 per diluted share.

Financial Position and Liquidity

Cash provided by operations of $119.1 million in 2012 was $30.2 million more than adjusted net income and, combined with $83.6 million in net proceeds from our revolving line of credit and $20.2 million in proceeds from

stock issued under share-based compensation plans, helped fund the following:

- payments of $4.7 million related to acquisitions;
- net capital expenditures of $16.3 million;
- quarterly cash dividend payments to shareholders, which totaled $29.1 million for the year;
- share repurchases in the open market of $77.0 million; and
- the payoff of our $100.0 million Floating Rate Senior Notes at maturity.

Total net receivables increased 4% compared to December 31, 2011 due primarily to an increase in current trade receivables as a result of December base business sales growth, higher vendor receivables and a slight reduction in the allowance for doubtful accounts. Days sales outstanding (DSO) improved between periods to 28.8 days at December 31, 2012 compared to 29.9 days at December 31, 2011.

Inventory levels were up 3% to $400.3 million at December 31, 2012 compared to levels at December 31, 2011. Excluding inventory of approximately $4.0 million from recent acquisitions, inventories increased 2% year over year. Our inventory turns, as calculated on a trailing twelve month basis, accelerated to 3.4 times at December 31, 2012 from 3.2 times at December 31, 2011.

Total debt outstanding was $230.9 million at December 31, 2012, a decrease of $16.4 million compared to December 31, 2011.

Current Trends and Outlook

The economic downturn between 2007 and 2009 had a significant impact on our industry, driving an approximate 80% reduction in new pool construction in the United States compared to peak levels in 2005 and also contributing to more than a 30% decline in replacement and refurbishment activities. While we estimate that new pool construction has increased from a low of roughly 45,000 new units in 2009 to approximately 60,000 new units in 2012, construction levels are still down more than 70% compared to peak levels in 2005 and down approximately 60% from what we consider normalized levels.

Our base business sales growth in 2012 and 2011 was driven by market share gains, but also reflected continued improvement in consumer discretionary expenditures and higher replacement activities given our estimated industry growth of 3% to 4% each year. Although general external market factors including consumer confidence, employment, housing, consumer financing and economic growth have improved, we believe the current economic environment remains uncertain, especially in Europe due to lingering sovereign debt and economic issues.

Looking ahead, we believe there is potential for a significant sales recovery due to the build-up of deferred replacement and remodeling activity and our expectation for gradually normalized new pool and irrigation construction levels. We also expect that market conditions will continue to improve, enabling further recovery of replacement, remodeling and new construction activity to normalized levels over the next 7 to 10 years. We expect that the industry will realize an annual growth rate of approximately 4% to 7% over this time period before reverting back to 3% to 5% annual growth over the longer term. We believe that we are well positioned to take advantage of both the eventual market recovery and the inherent long-term growth opportunities in our industry.

Our outlook for 2013 is very similar to 2012 with regard to the macroeconomic environment, industry growth levels and opportunities for us to realize additional market share gains. We anticipate 5% to 7% base business sales growth, including our expectation for average inflationary product cost increases of 1% to 2%. We believe that unfavorable product and customer mix changes and competitive pricing trends will continue in 2013, therefore improved purchasing and pricing discipline will be key to realizing any gross margin improvement in 2013. As such, we expect that our gross margin will remain relatively flat for the full year with quarterly gross margin comparisons versus 2012 varying by 30 or more basis points.

Base business operating expenses were essentially flat versus 2011, as decreases in employee incentive costs, lower bad debt expense and the impact of currency fluctuations were offset by higher professional fees and increases in wages and employee insurance. Overall, we anticipate more normalized levels of expense growth in 2013, including inflationary increases and some incremental costs to support our sales growth expectations with operating expense growth at about half the rate of sales growth. We expect base business results will generate operating profit growth as a percentage of base business sales growth (contribution margin) at or approaching 20% in 2013.

Based on these expectations, we project that 2013 earnings per share will be approximately $2.13 to $2.23 per diluted share. We expect cash provided by operations will exceed net income for fiscal 2013 and anticipate that share repurchase activity will be similar to 2012.

The forward-looking statements in this Current Trends and Outlook section are subject to significant risks and uncertainties, including changes in the economy and the housing market, the sensitivity of our business to weather conditions, our ability to maintain favorable relationships with suppliers and manufacturers, competition from other leisure product alternatives and mass merchants, and other risks detailed in Item 1A of this Form 10-K.

CRITICAL ACCOUNTING ESTIMATES

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

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

Management has discussed the development, selection and disclosure of our critical accounting estimates with the Audit Committee of our Board. We believe the following critical accounting estimates require us to make the most difficult, subjective or complex judgments.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for an estimate of the losses we will incur if our customers do not make required payments. We perform periodic credit evaluations of our customers and typically do not require collateral. Consistent with industry practices, we generally require payment from our North American customers within 30 days except for sales under early buy programs for which we provide extended payment terms to qualified customers. The extended terms usually require payments in equal installments in April, May and June or May and June, depending on geographic location. Credit losses have generally been within or better than our expectations.

As our business is seasonal, our customers’ businesses are also seasonal. Sales are lowest in the winter months and our past due accounts receivable balance as a percentage of total receivables generally increases during this time. We provide reserves for uncollectible accounts based on the accounts receivable aging ranging from 0.1% for amounts currently due up to 100% for specific accounts more than 60 days past due.

At the end of each quarter, we perform a reserve analysis of all accounts with balances greater than $20,000 and more than 60 days past due. Additionally, we perform a separate reserve analysis on the balance of our accounts receivables with emphasis on past due accounts. As we review these past due accounts, we evaluate collectibility based on a combination of factors including:

- aging statistics and trends;
- customer payment history;
- independent credit reports; and
- discussions with customers.

During the year, we write off account balances when we have exhausted reasonable collection efforts and determined that the likelihood of collection is remote. These write-offs are charged against our allowance for doubtful accounts. In the past five years, write-offs have averaged approximately 0.3% of net sales annually. Write-offs as a percentage of net sales were 0.1% in 2012, 0.2% in 2011 and 0.3% in 2010. Write-offs in 2010 were higher than our long-term historical average of approximately 0.2% of net sales due to the negative impacts on some of our customers' businesses from the challenging external environment between 2007 and 2010. Based on significant reductions in our past due receivables aging categories due to gradually improving external market trends, heightened collection efforts and creditworthiness evaluations, net write-offs improved significantly in 2011 and 2012. We expect that write-offs will be approximately 0.1% of net sales in 2013.

If the balance of the accounts receivable reserve increased or decreased by 20% at December 31, 2012, pretax income would change by approximately $1.1 million and earnings per share would change by approximately $0.01 per diluted share (based on the number of weighted average diluted shares outstanding for the year ended December 31, 2012).

Inventory Obsolescence

Product inventories represent the largest asset on our balance sheet. Our goal is to manage our inventory such that we minimize stock-outs to provide the highest level of service to our customers. To do this, we maintain at each sales center an adequate inventory of stock keeping units (SKUs) with the highest sales volumes. At the same time, we continuously strive to better manage our slower moving classes of inventory, which are not as critical to our customers and thus, inherently have lower velocity. Sales centers classify products into 13 classes based on sales at that location over the past 12 months (or 36 months for tile products).

All inventory is included in these classes, except for non-stock special order items and products with less than 12 months of usage. The table below presents a description of these inventory classes:

Class 0	new products with less than 12 months usage (or 36 months for tile products)
Classes 1-4	highest sales value items, which represent approximately 80% of net sales at the sales center
Classes 5-12	lower sales value items, which we keep in stock to provide a high level of customer service
Class 13	products with no sales for the past 12 months at the local sales center level, excluding special order products not yet delivered to the customer
Null class	non-stock special order items

There is little risk of obsolescence for products in classes 1-4 because products in these classes generally turn quickly. We establish our reserve for inventory obsolescence based on inventory classes 5-13, which we believe represent some exposure to inventory obsolescence, with particular emphasis on SKUs with the least sales over the previous 12 months. The reserve is intended to reflect the value of inventory that we may not be able to sell at a profit. We provide a reserve of 5% for inventory in classes 5-13 and non-stock inventory as determined at the sales center level. We also provide an additional 5% reserve for excess inventory in classes 5-12 and an additional 45% reserve for excess inventory in class 13. We determine excess inventory, which is defined as the amount of inventory on hand in excess of the previous 12 months usage, on a company-wide basis. We also evaluate whether the calculated reserve provides sufficient coverage of the total class 13 inventory.

In evaluating the adequacy of our reserve for inventory obsolescence, we consider a combination of factors including:

- the level of inventory in relationship to historical sales by product, including inventory usage by class based on product sales at both the sales center and Company levels;
- changes in customer preferences or regulatory requirements;
- seasonal fluctuations in inventory levels;
- geographic location; and
- new product offerings.

We periodically adjust our reserve for inventory obsolescence as changes occur in the above-identified factors.

If the balance of our inventory reserve increased or decreased by 20% at December 31, 2012, pretax income would change by approximately $1.5 million and earnings per share would change by approximately $0.02 per diluted share (based on the number of weighted average diluted shares outstanding for the year ended December 31, 2012).

Vendor Incentives

Many of our vendor arrangements provide for us to receive incentives of specified amounts of consideration when we achieve any of a number of measures. These measures are generally related to the volume level of purchases from our vendors and may include negotiated pricing arrangements. We account for vendor incentives as a reduction of the prices of the vendor’s products and therefore a reduction of inventory until we sell the product, at which time such incentives are recognized as a reduction of cost of sales in our income statement.

Throughout the year, we estimate the amount of the incentive earned based on our estimate of total purchases for the fiscal year relative to the purchase levels that mark our progress toward earning the incentives. We accrue vendor

incentives on a monthly basis using these estimates provided that we determine they are probable and reasonably estimable. Our estimates for annual purchases, future inventory levels and sales of qualifying products are driven by our sales projections, which can be significantly impacted by a number of external factors including weather and changes in economic conditions. Changes in our purchasing mix also impact our incentive estimates, as incentive rates can vary depending on our volume of purchases from specific vendors. We continually revise these estimates throughout the year to reflect actual purchase levels and identifiable trends. As a result, our estimated quarterly vendor incentive accruals may include cumulative catch-up adjustments to reflect any changes in our estimates between reporting periods.

If market conditions were to change, vendors may change the terms of some or all of these programs. Although such changes would not affect the amounts we have recorded related to products already purchased, they may lower or raise our gross margins for products purchased and sold in future periods.

Income Taxes

We record deferred tax assets or liabilities based on differences between the financial reporting and tax basis of assets and liabilities using currently enacted rates and laws that will be in effect when we expect the differences to reverse. Due to changing tax laws and state income tax rates, significant judgment is required to estimate the effective tax rate expected to apply to tax differences that are expected to reverse in the future.

As of December 31, 2012, we have not provided for United States income taxes on undistributed earnings of our foreign subsidiaries, as we have invested or expect to invest the undistributed earnings indefinitely. If these earnings are repatriated to the United States in the future, or if we determine that the earnings will be remitted in the foreseeable future, additional tax provisions may be required. Determining the amount of unrecognized deferred tax liability on these undistributed earnings is not practicable due to the complexity of tax laws and regulations and the varying circumstances, tax treatments and timing of any future repatriation.

We hold, through our wholly owned affiliates, cash balances in the countries in which we operate, including amounts held outside the United States. Most of the amounts held outside the United States could be repatriated to the United States, but, under current law, may be subject to United States federal income taxes, less applicable foreign tax credits. Repatriation of some foreign balances is restricted by local laws including the imposition of withholding taxes in some jurisdictions.

We have operations in 39 states, 1 United States territory and 9 foreign countries. The amount of income taxes we pay is subject to adjustment by the applicable tax authorities. We are subject to regular audits by federal, state and foreign tax authorities. Our estimate for the potential outcome of any uncertain tax issue is highly judgmental. We regularly evaluate our tax positions, assess the probability of examinations by taxing authorities and incorporate these expectations into our reserve estimates. We believe we have adequately provided for any reasonably foreseeable outcome related to these matters. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved or when statutes of limitation on potential assessments expire. These adjustments may include changes in valuation allowances that we have established. As a result of these uncertainties, our total income tax provision may fluctuate on a quarterly basis.

Incentive Compensation Accrual

Our incentive compensation structure is designed to attract, motivate and retain employees. Our incentive compensation packages include bonus plans that are specific to each group of eligible participants and their levels and areas of responsibility. The majority of our bonus plans have annual cash payments that are based primarily on objective performance criteria, with a component based on management’s discretion. We calculate bonuses based on the achievement of certain key measurable financial and operational results, including budgeted operating income and diluted earnings per share. We generally make bonus payments at the end of February following the most recently completed fiscal year.

Management sets the objectives for our bonus plans at the beginning of the bonus plan year using both historical information and forecasted results of operations for the current plan year. The Compensation Committee of our Board approves these objectives for certain bonus plans. We record an incentive compensation accrual at the end of each month using management’s estimate of the total overall incentives earned based on the amount of progress achieved toward the stated bonus plan objectives. During the third and fourth quarters and as of our fiscal year end, we adjust

our estimated incentive compensation accrual based on our detailed analysis of each bonus plan, the participants' progress toward achievement of their specific objectives and management's estimates related to the discretionary components of the bonus plans.

Our quarterly incentive compensation expense and accrual balances may vary relative to actual annual bonus expense and payouts due to the following:

- the discretionary components of the bonus plans;
- differences between estimated and actual performance; and
- our projections related to achievement of multiple-year performance objectives for our Strategic Plan Incentive Program.

Impairment of Goodwill

Our largest intangible asset is goodwill. At December 31, 2012, our goodwill balance was $170.0 million, representing approximately 22% of total assets. Goodwill represents the excess of the amount we paid to acquire a company over the estimated fair value of tangible assets and identifiable intangible assets acquired, less liabilities assumed.

We are required to test goodwill for impairment annually or on a more frequent basis if events or changes in circumstances occur that indicate potential impairment. If the estimated fair value of any of our reporting units has fallen below their carrying value, we compare the estimated fair value of the reporting unit's goodwill to its carrying value. If the carrying value of a reporting unit's goodwill exceeds its estimated fair value, we recognize the difference as an impairment loss in operating income.

Since we define an operating segment as an individual sales center and we do not have operations below the sales center level, our reporting unit is an individual sales center. As of October 1, 2012, we had 209 reporting units with allocated goodwill balances. The highest goodwill balance was $5.7 million and the average goodwill balance was $0.8 million.

We estimate the fair value of our reporting units by utilizing a present value model that incorporates our assumptions for projected future cash flows, discount rates and multiples. In order to determine the reasonableness of the assumptions included in our fair value estimates, we compare the total estimated fair value for all aggregated reporting units to our market capitalization on the date of our impairment test. We also review for potential impairment indicators at the reporting unit level based on an evaluation of recent historical operating trends, current and projected local market conditions and other relevant factors as appropriate.

During the third quarter of 2012, we performed an interim goodwill impairment analysis based on our identification of impairment indicators related to our results through the end of the 2012 pool season and the depressed economic conditions in the United Kingdom. Our results for the nine months ended September 30, 2012 were significantly lower than our 2012 sales, gross profit and operating profit estimates for the United Kingdom reporting unit that we used in our 2011 annual goodwill impairment test. We updated our 2011 impairment analysis for both our actual 2012 year to date results and our updated growth estimates for future years based on expectations for a more prolonged economic recovery period in the United Kingdom. Our updated projections had a significant impact on our projected future cash flow calculation and resulted in a much lower estimated fair value for our United Kingdom reporting unit. Consequently, we recorded a non-cash goodwill impairment charge of $6.9 million equal to the total carrying amount of our United Kingdom reporting unit.

In October 2012, we performed our annual goodwill impairment test and did not identify any goodwill impairment at the reporting unit level.

Based on the combination of their higher goodwill balances and the overall economic conditions and uncertainty in Europe, we identified our Spain and Italy reporting units as the most at risk for goodwill impairment. We believe that our domestic reporting units most at risk for goodwill impairment are the three Horizon locations in Texas that had a recorded goodwill impairment in 2011. Other domestic reporting units considered at risk for goodwill impairment include two additional Horizon locations in Texas, one Horizon location in Nevada and one Superior location in New Jersey that each had marginal results in recent years, but improved profitability in 2012. As of December 31, 2012, our European at risk reporting units had an aggregate goodwill balance of $6.4 million and our domestic at risk reporting units had an aggregate goodwill balance of $9.5 million.

If our assumptions or estimates in our fair value calculations change, we could incur additional impairment charges in future periods, especially related to the reporting units discussed above. Additional impairment charges would decrease operating income and result in lower asset values on our balance sheet. We performed a sensitivity test for the two key assumptions in our 2012 annual goodwill impairment test and determined that an increase in our estimated weighted average cost of capital of 50 basis points or a decrease in the estimated perpetuity growth rate of 50 basis points would not have resulted in any calculated goodwill impairments.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board issued new guidance to give more prominence to items reclassified out of accumulated other comprehensive income (AOCI). The new standard requires companies to disclose the effect on each income statement line item due to the reclassification of an AOCI component into net income, or if the reclassification does not impact net income, the applicable accounting guidance and related financial statement effects. This standard is effective for reporting periods beginning after December 15, 2012. We expect that the adoption of this guidance will impact our financial statement disclosures, but will not have a material impact on our financial position or results of operations.

RESULTS OF OPERATIONS

The table below summarizes information derived from our Consolidated Statements of Income expressed as a percentage of net sales for the past three fiscal years:

	Year Ended December 31,		
	2012	2011	2010
Net sales	100.0 %	100.0 %	100.0 %
Cost of sales	71.0	70.4	70.8
Gross profit	29.0	29.6	29.2
Operating expenses	21.3	22.6	22.9
Goodwill impairment	0.4	0.1	—
Operating income	7.4	7.0	6.3
Interest expense, net	0.3	0.4	0.4
Income before income taxes and equity earnings	7.1 %	6.5 %	5.9 %

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

Our discussion of consolidated operating results includes the operating results from acquisitions in 2012, 2011 and 2010. We have included the results of operations in our consolidated results since the respective acquisition dates.

Fiscal Year 2012 compared to Fiscal Year 2011

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

(Unaudited) (in thousands)	Base Business Year Ended December 31,		Excluded Year Ended December 31,		Total Year Ended December 31,	
	2012	2011	2012	2011	2012	2011
Net sales	$1,910,333	$1,787,800	$43,641	$5,518	$1,953,974	$1,793,318
Gross profit	555,493	530,002	11,914	1,588	567,407	531,590
Gross margin	29.1 %	29.6 %	27.3 %	28.8 %	29.0 %	29.6 %
Operating expenses	401,897	402,709	13,695	2,264	415,592	404,973
Expenses as a % of net sales	21.0 %	22.5 %	31.4 %	41.0 %	21.3 %	22.6 %
Goodwill impairment	6,946	1,550	—	—	6,946	1,550
Operating income (loss)	146,650	125,743	(1,781)	(676)	144,869	125,067
Operating margin	7.7 %	7.0 %	(4.1)%	(12.3)%	7.4 %	7.0 %

We have excluded the following acquisitions from base business for the periods identified:

Acquired [1]	Acquisition Date	Net Sales Centers Acquired	Periods Excluded
CCR Distribution	March 2012	1	March–December 2012
Ideal Distributors Ltd.	February 2012	4	February–December 2012
G.L. Cornell Company	December 2011	1	January–December 2012 and December 2011
Poolway Schwimmbadtechnik GmbH	November 2011	1	January–December 2012 and November–December 2011
The Kilpatrick Company, Inc.	May 2011	4	January–July 2012 and May–July 2011
Turf Equipment Supply Co.	December 2010	3	January–February 2012 and January–February 2011
Pool Boat and Leisure, S.A.	December 2010	1	January–February 2012 and January–February 2011

[1] We acquired certain distribution assets of each of these companies.

We exclude sales centers that are acquired, closed or opened in new markets from base business results 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. There were four sales centers opened in new markets that were excluded from base business as of December 31, 2012.

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

The table below summarizes the changes in our sales centers during 2012:

December 31, 2011	298
Acquired	5
New locations	9
December 31, 2012	312

For information about our recent acquisitions, see Note 2 of “Notes to Consolidated Financial Statements,” included in Item 8 of this Form 10-K.

Net Sales

(in millions)	Year Ended December 31,			
	2012	2011	Change	
Net sales	$1,954.0	$1,793.3	$160.7	9%

Net sales for 2012 increased 9% compared to 2011, including a 7% increase in base business sales and a 2% increase related to our recent acquisitions and sales centers opened in new markets. Our base business sales growth included a 7% increase on the swimming pool side of the business and a 10% increase on the irrigation side of the business. In local currencies, net sales in Europe declined approximately 1% in 2012, as modest sales growth in France, our largest European market, offset double digit sales declines in the United Kingdom and sales declines in Spain and Italy.

The principal factors contributing to base business sales growth included the following (listed in order of estimated magnitude):

- market share gains attributed to continued improvements in customer service levels, sales growth rates for certain product offerings such as building materials and chemicals (see discussion below) and higher base business sales growth for the irrigation side of the business, which included benefits realized from a regional competitor going out of business;
- double digit sales growth for higher value, lower margin products, such as variable speed pumps, motorized pool lifts, pool heaters and LED lighting;
- continued improvement in consumer discretionary expenditures, including some market recovery in remodeling activity;
- the impact of inflationary product cost increases (estimated at approximately 1% to 2%); and
- higher sales of non-discretionary products for the refurbishment of the aging installed base of swimming pools, which we estimate grew 1% over the past year.

Sales of building materials, tile and packaged pool products grew by 16% compared to 2011, although collectively these products only accounted for approximately 12% of our total sales. Chemical sales grew by 5%, with a small benefit overall from price inflation despite some lingering price deflation for certain chemical products.

These sales increases were offset by unfavorable foreign currency fluctuations of approximately 1%.

Our sales performance in 2012 was strongest in the first quarter with 13% base business sales growth, modest in the middle second and third quarters, and solid in the fourth quarter with 12% base business sales growth. Sales benefited from exceptionally favorable weather through May as record warm spring temperatures spawned an early start to the 2012 peak season. However, June and July sales were negatively impacted by unfavorable weather conditions compared to the same period in 2011 and the shift of business into earlier months. See discussion of significant weather impacts under the subheading Seasonality and Quarterly Fluctuations beginning on page 30.

Gross Profit

(in millions)	Year Ended December 31,			
	2012	2011	Change	
Gross profit	$567.4	$531.6	$35.8	7%
Gross margin	29.0%	29.6%		

Gross margin decreased 60 basis points between periods, reflecting unfavorable changes in our product and customer mix, competitive pricing pressures and unfavorable comparisons to 2011, which benefited from opportunistic inventory purchases. As discussed above, customer demand shifted somewhat in 2012 to higher value, lower margin products. While this product mix change strongly contributed to 2012 sales and gross profit growth, it negatively impacted gross margin. Additionally, going into the 2011 season, we made greater early buy inventory purchases in advance of year-end vendor price increases and we made additional bulk inventory purchases in advance of mid-year 2011 vendor price increases. These strategic purchases benefited our gross margin throughout 2011. We made more modest early buy inventory purchases going into the 2012 season as vendor price increases were less escalated.

Favorable impacts on comparative gross margin included continued improvements in purchasing and pricing discipline and a 10 basis point increase attributed to lower debit card fees as a percentage of net sales as a result of the Dodd Frank Wall Street Reform and Consumer Protection Act.

Year over year, gross margin comparisons worsened throughout 2012, with declines of 30 basis points in the first quarter, 50 basis points in the second quarter, 70 basis points in the third quarter and 90 basis points in the fourth quarter. The gradual decline reflected the difficult comparison to 2011 due to the timing and amount of inventory purchases, combined with changes in product and customer mix during 2012.

Operating Expenses

(in millions)	Year Ended December 31,			
	2012	2011	Change	
Operating expenses	$415.6	$405.0	$10.6	3%
Operating expenses as a percentage of net sales	21.3 %	22.6 %		

Operating expenses increased 3% compared to 2011. Base business operating expenses remained essentially flat due to the following:

- a $3.7 million decrease in employee incentive costs;
- a $2.5 million impact on expenses from currency fluctuations; and
- a $2.2 million decline in bad debt expense, due to improved collection and write-off trends.

These declines were offset by increases of $4.1 million in salaries and wages and $2.1 million in employee insurance costs primarily due to a 3% increase in average headcount excluding acquisitions. Professional fees also increased by $2.5 million.

Interest Expense, net

Interest expense, net decreased $1.5 million due primarily to the impact of foreign currency transaction gains and losses, with gains of $0.1 million recognized in 2012 compared to losses of $0.6 million recognized in 2011. Interest expense related to borrowings declined approximately $0.3 million in 2012 due primarily to a decline in expense on interest rate swap contracts. Average outstanding debt was down 2% compared to 2011 and the weighted average effective interest rate remained flat at 2.6% between periods. In 2011, we realized a $0.3 million loss related to the early termination of interest rate swap contracts in the fourth quarter.

Income Taxes

Our effective income tax rate was 41.00% at December 31, 2012 compared to 38.70% at December 31, 2011. This slightly higher effective income tax rate reflects an increase in our valuation allowance and a small impact due to the temporary lapse of the controlled foreign corporation income exclusion, offset by benefits realized upon the expiration of statutes of limitations for our 2007 income tax returns.

Net Income and Earnings Per Share

Net income increased 14% to $82.0 million in 2012, while earnings per share increased 16% to $1.71 per diluted share. Excluding the $6.9 million ($0.14 per diluted share) impact from the goodwill impairment charge in 2012 and the $1.6 million ($0.03 per diluted share) impact from the goodwill impairment charge in 2011, adjusted net income for 2012 increased 21% to $88.9 million and adjusted earnings per share increased 23% to $1.85 per diluted share. Earnings per share for 2012 also included the following:

- an accretive impact of approximately $0.02 per diluted share from the reduction in our weighted average shares outstanding due to our share repurchase activities during the year; and
- an unfavorable impact of $0.01 per diluted share due to foreign currency fluctuations.

Fiscal Year 2011 compared to Fiscal Year 2010

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

(Unaudited) (in thousands)	Base Business Year Ended December 31,		Excluded Year Ended December 31,		Total Year Ended December 31,	
	2011	2010	2011	2010	2011	2010
Net sales	$1,766,651	$1,607,892	$26,667	$5,854	$1,793,318	$1,613,746
Gross profit	523,778	469,515	7,812	1,747	531,590	471,262
Gross margin	29.6 %	29.2 %	29.3 %	29.8 %	29.6 %	29.2 %
Operating expenses	396,272	368,603	8,701	1,414	404,973	370,017
Expenses as a % of net sales	22.4 %	22.9 %	32.6 %	24.2 %	22.6 %	22.9 %
Goodwill impairment	1,550	—	—	—	1,550	—
Operating income (loss)	125,956	100,912	(889)	333	125,067	101,245
Operating margin	7.1 %	6.3 %	(3.3)%	5.7 %	7.0 %	6.3 %

For an explanation of how we calculate base business, please refer to the discussion of base business on page 24 under the heading "Fiscal Year 2012 compared to Fiscal Year 2011".

For purposes of comparing operating results for the year ended December 31, 2011 to the year ended December 31, 2010, we excluded acquired sales centers from base business for the periods identified in the table below. As of December 31, 2011, we also excluded one existing sales center that was consolidated with an acquired sales center and one new market sales center that opened in 2011.

Acquired	Acquisition Date	Net Sales Centers Acquired	Periods Excluded
G.L. Cornell Company [(1)]	December 2011	1	December 2011
Poolway Schwimmbadtechnik GmbH [(1)]	November 2011	1	November–December 2011
The Kilpatrick Company, Inc. [(1)]	May 2011	4	May–December 2011
Turf Equipment Supply Co. [(1)]	December 2010	3	January–December 2011 and December 2010
Pool Boat and Leisure, S.A. [(1)]	December 2010	1	January–December 2011 and December 2010
Les Produits de Piscine Metrinox Inc.	April 2010	2	January–June 2011 and April–June 2010

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

The table below summarizes the changes in our sales centers during 2011:

December 31, 2010	291
Acquired	6
New locations	4
Consolidated	(3)
December 31, 2011	298

For information about our recent acquisitions, see Note 2 of “Notes to Consolidated Financial Statements,” included in Item 8 of this Form 10-K.

Net Sales

(in millions)	Year Ended December 31,			
	2011	2010	Change	
Net sales	$1,793.3	$1,613.7	$179.6	11%

Net sales for 2011 increased 11% compared to 2010, including a 10% increase in base business sales and a 1% increase related to our recent acquisitions and new sales centers. Our base business sales growth included a 10% increase on the swimming pool side of the business and an 8% increase on the irrigation side of the business. The principal driver of base business sales growth was market share gains, which we attributed to continued improvements in customer service levels, benefits from our focus on the building materials product segment and retail customer segment of our industry and further expansion of our product offerings. Other factors contributing to the sales growth included the following (listed in order of estimated magnitude):

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

One example of our success in achieving market share gains was the 18% sales growth for our building material products, which include tile and specialty pool finish products. The impact of double digit sales growth rates for products related to replacement and remodel activity was partially offset by lower growth rates for maintenance and repair products. Chemical sales grew 4% compared to 2010, with volumes up close to 6% and an unfavorable impact of 2% from price deflation on certain chemical products.

We realized more moderate sales growth rates in the last nine months of 2011 compared to the 15% base business sales growth realized in the first quarter of 2011, which had easier sales comparisons to the same period in 2010 and benefited from more favorable weather conditions across most of the Sunbelt markets compared to the first quarter of 2010. See discussion of significant weather impacts under the subheading Seasonality and Quarterly Fluctuations beginning on page 30.

Gross Profit

(in millions)	Year Ended December 31,			
	2011	2010	Change	
Gross profit	$531.6	$471.3	$60.3	13%
Gross margin	29.6 %	29.2 %		

Gross margin increased 40 basis points between periods, reflecting continued improvements in sales, pricing and purchasing discipline. This included a continued migration of sales to higher margin preferred vendor and Pool Corporation branded products and some benefit attributed to the impact of mid year vendor price increases implemented by some vendors. We realized a favorable impact of 10 basis points related to higher freight out income, which compensated for higher delivery costs included in operating expenses. In 2011, we also experienced a more normalized competitive pricing environment in some markets compared to the past few years when our industry contracted.

Year over year gross margin comparisons varied by quarter, with improvements of 90 basis points in the seasonally slower first quarter, 50 basis points in the second quarter and 60 basis points in the third quarter compared to a decline

of 60 basis points in the fourth quarter. The majority of the improvement in the first quarter was due to an easier comparison to the first quarter of 2010 when our gross margin was down 110 basis points from the first quarter of 2009. Fourth quarter margins were down due primarily to the favorable impact on fourth quarter 2010 gross margin from certain non recurring vendor incentives.

Operating Expenses

(in millions)	Year Ended December 31,					
	2011		2010		Change	
Operating expenses	$405.0		$370.0		$35.0	9%
Operating expenses as a percentage of net sales	22.6	%	22.9	%		

Total operating expenses increased 10% compared to 2010, including an 8% increase in base business operating expenses due primarily to the following:

- a $15.4 million increase in employee incentive costs, which reflected the catch up of incentives to more normalized levels following the business downturn in 2007-2009, rewards to employees for exceptional financial and operational performance in 2011 and accruals for our longer term senior management incentive program;
- other variable expenses, which increased along with our base business sales growth;
- a $3.3 million increase in delivery costs, including higher delivery volumes and higher fuel costs;
- a $2.1 million increase in bad debt expense, which reflects a normalized expense level compared to 2010 when we recorded an adjustment in the second quarter that reduced the allowance for doubtful accounts due to significantly better than expected customer collections; and
- a $2.1 million impact from currency fluctuations.

The only significant base business expense reduction compared to 2010 was a $2.1 million decline in facility lease costs, which reflected the continued but moderating impact from lower negotiated lease rates and facility consolidations in 2010 and 2011.

Interest Expense, net

Interest expense, net increased $1.3 million due primarily to the impact of foreign currency transaction gains and losses, with losses of $0.6 million recognized in 2011 compared to gains of $1.5 million recognized in 2010. Interest expense related to borrowings declined approximately $0.7 million in 2011, despite a $0.3 million realized loss related to the early termination of interest rate swaps in the fourth quarter. The decline in interest expense on borrowings was due to a lower weighted average effective interest rate on 6% higher average debt compared to 2010. The weighted average effective interest rate decreased to 2.6% in 2011 from 3.0% in 2010.

Income Taxes

Our effective income tax rate was 38.70% at December 31, 2011 and 39.20% at December 31, 2010. The decline in rates between years was due primarily to tax credits and other benefits realized in 2011. There were no significant changes in our estimates related to our income tax provision.

Net Income and Earnings Per Share

Net income increased 25% to $72.0 million in 2011, while earnings per share increased 28% to $1.47 per diluted share. This increase included accretive impacts of approximately $0.05 per diluted share from the reduction in our weighted average shares outstanding due to our share repurchase activities and approximately $0.02 per diluted share from favorable currency fluctuations in 2011.

Seasonality and Quarterly Fluctuations

Our business is highly seasonal. In general, sales and operating income are highest during the second and third quarters, which represent the peak months of both swimming pool use and installation and landscape installations and maintenance. Sales are substantially lower during the first and fourth quarters, when we may incur net losses. In 2012, approximately 66% of our net sales and over 100% of our operating income were generated in the second and third quarters of the year.

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

The following table presents certain unaudited quarterly data for 2012 and 2011. 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)	2012				2011			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Statement of Income Data								
Net sales	$ 361,954	$ 757,175	$ 528,027	$306,818	$312,889	$706,423	$503,584	$270,422
Gross profit	104,563	222,405	151,501	88,938	91,410	211,439	147,906	80,835
Operating income (loss)	6,021	108,134	41,011	(10,297)	576	97,921	40,913	(14,343)
Net income (loss)	3,651	64,943	21,375	(7,997)	(638)	58,577	24,169	(10,115)

Federal	$ (7,302)	$ 22,659	$ 5,681
State	1,768	(1,407)	1,573
Foreign	46,287	12,461	8,871
Deferred:			
Federal	28,991	17,418	(9,872)
State	27	1,602	(377)
Foreign	(15,631)	(4,927)	6,919
	$ 54,140	$ 47,806	$ 12,795

The following table summarizes the U.S. and non-U.S. components of income from continuing operations before taxes and minority interest:

	2006	**2005**	**2004**

United States	$ 60,280	$ 78,632	$ 18,994
Other	158,747	129,283	78,144
	$ 219,027	$ 207,915	$ 97,138

Income taxes paid were $65,151, $29,560 and $23,042 in 2006, 2005 and 2004, respectively.

Reconciliations between the statutory federal income tax rate and the effective income tax rate for 2006, 2005 and 2004 were as follows:

	2006	**2005**	**2004**
Federal statutory rate	35.00%	35.00%	35.00%
Export sales benefit	(0.35%)	(1.01%)	(2.82%)
American Jobs Creation Act (AJCA) repatriation benefit	0.00%	(2.80%)	0.00%
Taxes on foreign earnings	(7.62%)	(6.65%)	(18.30%)
State taxes, net of federal benefit	1.00%	0.06%	1.00%
Other, net	(3.31%)	(1.61%)	(1.71%)
	24.72%	22.99%	13.17%

TELEFLEX INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Significant components of the deferred tax assets and liabilities at year end were as follows:

	2006	2005
Deferred tax assets:		
Tax loss carryforwards	$ 80,288	$ 71,928
Intangibles asset acquisitions	17,391	22,342
Accrued employee benefits	25,455	22,467
Tax credit carryforwards	36,554	22,664
Pension	2,844	11,375
Inventories	9,292	9,713
Bad debts	4,235	7,602
Other reserves and accruals	40,824	32,013
Less: Valuation allowance	(51,323)	(32,598)
Total deferred tax assets	165,560	167,506
Deferred tax liabilities:		
Fixed assets	61,068	71,425
Intangibles stock acquisitions	50,589	62,859
Foreign exchange	2,423	9,140
Accrued expenses	15,675	3,014
Other	7,316	7,842
Total deferred tax liabilities	137,071	154,280
Net deferred tax asset	$ 28,489	$ 13,226

At December 31, 2006, the cumulative unremitted earnings of subsidiaries outside the United States, for which no income or withholding taxes have been provided, approximated $321,000. Such earnings are expected to be reinvested indefinitely and as a result, no deferred tax liability has been recognized with regard to the remittance of such earnings. It is not practicable to estimate the income tax liability that might be incurred if such earnings were remitted to the United States.

Under the tax laws of various jurisdictions in which the Company operates, deductions or credits that cannot be fully utilized for tax purposes during the current year may be carried forward, subject to statutory limitations, to reduce taxable income or taxes payable in a future tax year. At December 31, 2006, the tax effect of such carry forwards approximated $116,842. Of this amount, $6,009 has no expiration date, $3,303 expires after 2006 but before the end of 2011 and $107,530 expires after 2011. A substantial amount of these carryforwards consist of tax losses which were acquired in an acquisition by the Company in 2004. Therefore, the utilization of these tax attributes is subject to an annual limitation imposed by Section 382 of the Internal Revenue Code. It is not expected that this annual limitation will prevent the Company from utilizing its carryforwards. The determination of state net operating loss

carryforwards are dependent upon the U.S. subsidiaries taxable income or loss, apportionment percentages and other respective state laws, which can change year to year and impact the amount of such carryforward.

The valuation allowance for deferred tax assets of $51,323 and $32,598 at December 31, 2006 and December 25, 2005, respectively, relates principally to the uncertainty of the utilization of certain deferred tax assets, primarily tax loss and credit carryforwards in various jurisdictions. The valuation allowance was calculated in accordance with the provisions of SFAS No. 109, which requires that a valuation allowance be established and maintained when it is more likely than not that all or a portion of deferred tax assets will

TELEFLEX INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

not be realized. The valuation allowance increase in 2006 was primarily attributable to the recording of deferred tax assets associated with state tax loss carryforwards at full value which required a valuation allowance.

Several foreign subsidiaries continue to operate under separate tax holiday arrangements as granted by certain foreign jurisdictions. The nature and extent of such arrangements vary and the benefits of such arrangements phase out in future years according to the specific terms and schedules as set forth by the particular taxing authorities having jurisdiction over the arrangements. The most significant arrangement expires in March 2008.

Note 13 Pension and other postretirement benefits

The Company has a number of defined benefit pension and postretirement plans covering eligible U.S. and non-U.S. employees. The defined benefit pension plans are noncontributory. The benefits under these plans are based primarily on years of service and employees pay near retirement. The Company s funding policy for U.S. plans is to contribute annually, at a minimum, amounts required by applicable laws and regulations. Obligations under non-U.S. plans are systematically provided for by depositing funds with trustees or by book reserves.

The parent Company and certain subsidiaries provide medical, dental and life insurance benefits to pensioners and survivors. The associated plans are unfunded and approved claims are paid from Company funds.

The following table illustrates the incremental effect of applying SFAS No. 158 on individual line items in the December 31, 2006 consolidated balance sheet:

	Before Application of SFAS No. 158	Adjustments Required by SFAS No. 158	Consolidated Balance Sheet at December 31, 2006
Deferred tax assets	$ 59,446	$ 1,517	$ 60,963
Total current assets	1,138,012	1,517	1,139,529
Intangibles and other assets	262,991	(3,762)	259,229
Deferred tax assets	(6,533)	7,567	1,034
Total assets	2,353,730	5,322	2,359,052
Payroll and benefit-related liabilities	70,413	3,994	74,407
Total current liabilities	466,781	3,994	470,775
Deferred tax liabilities	34,774	(1,430)	33,344
Pension and postretirement benefit liabilities	77,269	19,922	97,191
Total liabilities	1,105,088	22,486	1,127,574
Accumulated other comprehensive income	47,199	(17,164)	30,035
Total shareholders equity	1,206,585	(17,164)	1,189,421
Total liabilities and shareholders equity	2,353,730	5,322	2,359,052

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Net benefit cost for pension and postretirement benefit plans consisted of the following:

	Pension			Other Benefits		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
Service cost	$ 3,607	$ 4,716	$ 4,789	$ 311	$ 280	$ 231
Interest cost	11,784	11,339	10,871	1,490	1,342	1,283
Expected return on plan assets	(12,553)	(9,978)	(16,247)			
Net amortization and deferral	2,465	898	8,149	937	740	439
Curtailment charge (credit)		(585)			79	
Net benefit cost	$ 5,303	$ 6,390	$ 7,562	$ 2,738	$ 2,441	$ 1,953

The estimated net loss, prior service cost and net transition obligation for U.S. and foreign defined benefit pension plans that will be amortized from accumulated other comprehensive income into net benefit cost during 2007 are $2,862, $(128) and $78, respectively. The estimated net loss, prior service cost and net transition obligation for postretirement benefit plans that will be amortized from accumulated other comprehensive income into net benefit cost during 2007 are $607, $90 and $217, respectively.

The weighted average assumptions for U.S. and foreign plans used in determining net benefit cost were as follows:

	Pension			Other Benefits		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
Discount rate	5.71%	5.75%	6.5%	5.75%	5.75%	6.5%
Rate of return	8.73%	8.54%	8.66%			
Initial healthcare trend rate				9.0%	10.0%	8.0%
Ultimate healthcare trend rate				4.5%	4.5%	4.5%

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TELEFLEX INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summarized information on the Company s pension and postretirement benefit plans, measured as of year end, and the amounts recognized in the consolidated balance sheet and in accumulated other comprehensive income were as follows:

	Pension		Other Benefits	
	2006	**2005**	**2006**	**2005**
Benefit obligation, beginning of year	$ 207,145	$ 200,854	$ 26,110	$ 21,984
Service cost	3,332	4,716	311	280
Interest cost	11,784	11,339	1,490	1,342
Amendments	765	751	1,102	748
Actuarial loss	11,294	9,511	1,478	3,888
Currency translation	7,574	(4,919)		
Benefits paid	(8,468)	(8,470)	(2,194)	(1,946)
Medicare Part D reimbursement			168	
Divestitures	(27)			
Curtailments		(6,637)		(186)
Benefit obligation, end of year	233,399	207,145	28,465	26,110
Fair value of plan assets, beginning of year	144,436	132,278		
Actual return on plan assets	12,101	10,039		
Contributions	10,990	11,219		
Benefits paid	(8,468)	(8,470)		
Currency translation	2,778	(630)		
Fair value of plan assets, end of year	161,837	144,436		
Funded status, end of year	$ (71,562)	(62,709)	$ (28,465)	(26,110)
Unrecognized transition obligation		959		1,509
Unrecognized net actuarial loss		43,727		9,288
Unrecognized prior service cost		(1,360)		558
Net amount recognized		$ (19,383)		$ (14,755)

	Pension		Other Benefits	
	2006	**2005**	**2006**	**2005**
Amounts recognized in the consolidated balance sheet:				
Prepaid benefit cost	$ 1,158	$ 740	$	$

Payroll and benefit-related liabilities	(1,920)		(2,074)	
Pension and postretirement benefit liabilities	(70,800)	(50,594)	(26,391)	(14,755)
Intangible asset		2,096		
Accumulated other comprehensive income	55,384	28,375	12,997	
	$ (16,178)	$ (19,383)	$ (15,468)	$ (14,755)

TELEFLEX INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Pension		Other Benefits	
	2006	**2005**	**2006**	**2005**
Amounts recognized in accumulated other comprehensive income:				
Net actuarial loss	$ 54,814	n/a	$ 10,135	n/a
Prior service cost (credit)	(417)	n/a	1,570	n/a
Net transition obligation	987	n/a	1,292	n/a
	$ 55,384	n/a	$ 12,997	n/a

The weighted average assumptions for U.S. and foreign plans used in determining benefit obligations as of year end were as follows:

	Pension		Other Benefits	
	2006	**2005**	**2006**	**2005**
Discount rate	5.46%	5.71%	5.85%	5.75%
Expected return on plan assets	7.52%	8.73%		
Rate of compensation increase	3.0%	3.1%		
Initial healthcare trend rate			8.0%	9.0%
Ultimate healthcare trend rate			4.5%	4.5%

The discount rate for U.S. plans of 5.85% was established by comparing the projection of expected benefit payments to the Citigroup Pension Discount Curve (published monthly) as of December 31, 2006. The expected benefit payments are discounted by each corresponding discount rate on the yield curve. Once the present value of the string of benefit payments is established, the Company solves for the single spot rate to apply to all obligations of the plan that will exactly match the previously determined present value.

The Citigroup Pension Discount Curve is constructed beginning with a U.S. Treasury par curve that reflects the entire Treasury and Separate Trading of Registered Interest and Principal Securities (STRIPS) market. From the Treasury curve, Citibank produces a AA corporate par curve by adding option-adjusted spreads that are drawn from the AA corporate sector of the Citigroup Broad Investment Grade Bond Index. Finally, from the AA corporate par curve, Citigroup derives the spot rates that constitute the Pension Discount Curve. For payments beyond 30 years the Company extends the curve assuming that the discount rate derived in year 30 is extended to the end of the plan s payment expectations.

Increasing the assumed healthcare trend rate by 1% would increase the benefit obligation by $2,678 and would increase the 2006 benefit expense by $253. Decreasing the trend rate by 1% would decrease the benefit obligation by $2,265 and would decrease the 2006 benefit expense by $135.

The accumulated benefit obligation for all U.S. and foreign defined benefit pension plans was $221,942 and $193,536 for 2006 and 2005, respectively.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for U.S. and foreign plans with accumulated benefit obligations in excess of plan assets were $233,399, $221,942 and $161,837, respectively for 2006 and $205,457, $192,039 and $141,804, respectively for 2005.

Plan assets are allocated among various categories of equities, fixed income, cash and cash equivalents with professional investment managers whose performance is actively monitored. The target allocation among plan assets allows for variances based on economic and market trends. The primary investment objective is long-term growth of assets in order to meet present and future benefit obligations. The Company periodically

TELEFLEX INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

conducts an asset/liability modeling study to ensure the investment strategy is aligned with the profile of benefit obligations.

The plan asset allocations for U.S. and foreign plans are as follows:

	Target Allocation	% of Assets 2006	% of Assets 2005
Equity securities	60%	64%	68%
Debt securities	30%	19%	18%
Real estate	10%	17%	14%
	100%	100%	100%

The Company s contributions to U.S. and foreign pension plans during 2007 are expected to be in the range of $10 million to $14 million. Contributions to postretirement healthcare plans during 2007 are expected to be approximately $2 million.

The Company s expected benefit payments for U.S. and foreign plans for each of the five succeeding years and the aggregate of the five years thereafter, net of the annual Medicare Part D subsidy of approximately $220, is as follows:

	Pension	Other Benefits
2007	$ 8,949	$ 2,074
2008	9,402	2,138
2009	9,866	2,187
2010	10,463	2,223
2011	11,124	2,236
Years 2012 2016	66,963	10,979

The Company maintains a number of defined contribution savings plans covering eligible U.S. and non-U.S. employees. The Company partially matches employee contributions. Costs related to these plans were $9,132, $8,914 and $9,952 for 2006, 2005 and 2004, respectively.

Note 14 Commitments and contingent liabilities

Product warranty liability: The Company warrants to the original purchaser of certain of its products that it will, at its option, repair or replace, without charge, such products if they fail due to a manufacturing defect. Warranty periods vary by product. The Company has recourse provisions for certain products that would enable recovery from third parties for amounts paid under the warranty. The Company accrues for product warranties when, based on available information, it is probable that customers will make claims under warranties relating to products that have been sold,

and a reasonable estimate of the costs (based on historical claims experience relative to sales) can be made. Set forth below is a reconciliation of the Company s estimated product warranty liability for 2006:

Balance December 25, 2005	$ 14,156
Accrued for warranties issued in 2006	12,503
Settlements (cash and in kind)	(13,008)
Accruals related to pre-existing warranties	(143)
Effect of translation	550
Balance December 31, 2006	$ 14,058

TELEFLEX INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Operating leases: The Company uses various leased facilities and equipment in its operations. The terms for these leased assets vary depending on the lease agreement. In connection with these operating leases, the Company has residual value guarantees in the amount of $4,771 at December 31, 2006. The Company s future payments cannot exceed the minimum rent obligation plus the residual value guarantee amount. The guarantee amounts are tied to the unamortized lease values of the assets under lease, and are due should the Company decide neither to renew these leases, nor to exercise its purchase option. At December 31, 2006, the Company had no liabilities recorded for these obligations. Any residual value guarantee amounts paid to the lessor may be recovered by the Company from the sale of the assets to a third party.

Future minimum lease payments (including residual value guarantee amounts) under noncancelable operating leases are as follows:

2007	$ 35,115
2008	30,485
2009	26,008
2010	19,853
2011	15,508

Rental expense under operating leases was $38,850, $36,734 and $40,827 in 2006, 2005 and 2004, respectively.

Accounts receivable securitization program: The Company uses an accounts receivable securitization program to gain access to enhanced credit markets and reduce financing costs. As currently structured, the Company sells certain trade receivables on a non-recourse basis to a consolidated special purpose entity, which in turn sells an interest in those receivables to a commercial paper conduit. The conduit issues notes secured by that interest to third party investors. The assets of the special purpose entity are not available to satisfy the obligations of the Company. In accordance with the provisions of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, transfers of assets under the program qualify as sales of receivables and accordingly, $40,068 of accounts receivable and the related amounts previously recorded in notes payable were removed from the consolidated balance sheet as of both December 31, 2006 and December 25, 2005.

Environmental: The Company is subject to contingencies pursuant to environmental laws and regulations that in the future may require the Company to take further action to correct the effects on the environment of prior disposal practices or releases of chemical or petroleum substances by the Company or other parties. Much of this liability results from the U.S. Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), often referred to as Superfund, the U.S. Resource Conservation and Recovery Act (RCRA) and similar state laws. These laws require the Company to undertake certain investigative and remedial activities at sites where the Company conducts or once conducted operations or at sites where Company-generated waste was disposed.

Remediation activities vary substantially in duration and cost from site to site. These activities, and their associated costs, depend on the mix of unique site characteristics, evolving remediation technologies, diverse regulatory agencies and enforcement policies, as well as the presence or absence of potentially responsible parties. At December 31, 2006 and December 25, 2005, the Company s consolidated balance sheet included an accrued liability of $7,417 and $6,317, respectively, relating to these matters. Considerable uncertainty exists with respect to these costs and, under adverse

changes in circumstances, potential liability may exceed the amount accrued as of December 31, 2006. The time-frame over which the accrued or presently unrecognized amounts may be paid out, based on past history, is estimated to be 15-20 years.

TELEFLEX INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Litigation: The Company is a party to various lawsuits and claims arising in the normal course of business. These lawsuits and claims include actions involving product liability, intellectual property, employment and environmental matters. Based on information currently available, advice of counsel, established reserves and other resources, the Company does not believe that any such actions are likely to be, individually or in the aggregate, material to its business, financial condition, results of operations or liquidity. However, in the event of unexpected further developments, it is possible that the ultimate resolution of these matters, or other similar matters, if unfavorable, may be materially adverse to the Company s business, financial condition, results of operations or liquidity. Legal costs such as outside counsel fees and expenses are charged to expense in the period incurred.

In February 2004, a jury verdict of $34,800 was rendered against one of the Company s subsidiaries in a trademark infringement action. In February 2005, the trial judge entered an order rejecting the jury award in its entirety. In October 2006, the United States Court of Appeals for the Federal Circuit upheld the February 2005 decision. As no appeal of the Court of Appeals decision was filed within the requisite time for filing appeals in this matter, the decision has become final.

Other: The Company has various purchase commitments for materials, supplies and items of permanent investment incident to the ordinary conduct of business. In the aggregate, such commitments are not at prices in excess of current market.

Note 15 Business segments and other information

The Company has determined that its reportable segments are Commercial, Medical and Aerospace.

The Commercial Segment businesses principally design, manufacture and distribute engineered products in the technical areas of driver control, motion control, power and vehicle management and fluid management. The Company s products are used by a wide range of markets including the passenger car and light truck, marine, recreational, mobile power equipment, military, agricultural and construction vehicle, truck and bus and various other industrial equipment sectors.

The Medical Segment businesses develop, manufacture and distribute disposable medical products, surgical instruments and medical devices, and specialty devices that support healthcare providers and medical equipment manufacturers. The Company s products are largely sold and distributed to hospitals and healthcare providers in a range of clinical settings.

The Aerospace Segment businesses develop and provide repair products and services for flight and ground-based turbine engines, manufacture and distribute precision-machined components and design, manufacture and market cargo-handling systems to commercial aviation, military and industrial markets worldwide.

TELEFLEX INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Information about continuing operations by business segment is as follows:

	2006	2005	2004
Segment data:			
Commercial	$ 1,250,838	$ 1,189,645	$ 1,200,848
Medical	858,676	831,138	736,352
Aerospace	537,243	493,769	453,211
Revenues	2,646,757	2,514,552	2,390,411
Commercial	78,363	81,129	105,665
Medical	161,707	149,956	116,664
Aerospace	50,585	33,444	(10,519)
Segment operating profit[1]	290,655	264,529	211,810
Corporate expenses	34,936	23,955	31,888
(Gain) loss on sales of businesses and assets	838	(14,223)	(2,733)
Restructuring and impairment charges	25,226	27,066	67,618
Minority interest	(24,957)	(20,337)	(19,219)
Income from continuing operations before interest, taxes and minority interest	$ 254,612	$ 248,068	$ 134,256
Identifiable assets:			
Commercial	$ 710,917	$ 721,985	$ 842,176
Medical	921,401	927,996	1,093,971
Aerospace	251,629	247,362	355,048
Corporate[2]	464,920	488,806	346,155
	$ 2,348,867	$ 2,386,149	$ 2,637,350
Capital expenditures:			
Commercial	$ 20,963	$ 23,526	$ 28,004
Medical	25,896	26,523	14,023
Aerospace	15,603	18,147	9,027
Corporate	770	1,655	1,884
	$ 63,232	$ 69,851	$ 52,938
Depreciation and amortization expense:			
Commercial	$ 42,598	$ 42,316	$ 46,296

Medical		34,944		38,508		35,772
Aerospace		16,644		17,856		21,997
Corporate		4,818		2,173		2,474
	$	99,004	$	100,853	$	106,539

(1) Segment operating profit includes a segment s revenues reduced by its materials, labor and other product costs along with the segment s selling, engineering and administrative expenses and minority interest. Unallocated corporate expenses, (gain) loss on sales of businesses and assets, restructuring and impairment charges, interest income and expense and taxes on income are excluded from the measure.

TELEFLEX INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Identifiable corporate assets include cash, investments in unconsolidated entities, property, plant and equipment and deferred tax assets primarily related to net operating losses and pension and retiree medical plans.

Information about continuing operations in different geographic areas is as follows:

	2006	2005	2004
Revenues (based on business unit location):			
United States	$ 1,146,434	$ 1,119,978	$ 1,080,735
Other Americas	326,630	289,915	268,174
Germany	328,355	308,536	276,611
Other Europe	567,870	574,451	560,038
Asia/Australia	277,468	221,672	204,853
	$ 2,646,757	$ 2,514,552	$ 2,390,411
Net property, plant and equipment:			
United States	$ 171,442	$ 193,355	$ 299,951
Other Americas	59,599	55,022	37,236
Germany	69,996	67,894	91,597
Other Europe	69,663	80,833	103,441
Asia/Australia	51,478	50,712	52,027
	$ 422,178	$ 447,816	$ 584,252

Note 16 Discontinued operations and assets held for sale

In October 2006, the Company sold a small medical business that was classified as held for sale during the second quarter of 2005 and recognized a loss on the sale of $481. The Company previously recognized a $956 reduction in the carrying value of this business to the estimated fair value of the business less costs to sell. During 2006, the Company recognized a loss on disposal of $484 in connection with a post-closing purchase price adjustment based on working capital for its divested automotive pedal systems business. Also during 2006, the Company recognized a pre-tax gain of $917 related to the first quarter 2005 divestiture of Sermatech International, a surface-engineering/specialty coatings business and recognized a pre-tax gain of $230 related to the third quarter 2005 divestiture of a European medical product sterilization business.

In August 2005, the Company completed the sale of its automotive pedal systems business and received $7,500 in gross proceeds. The Company recognized a $20,874 reduction in the carrying value of this business to the estimated fair value of the business less costs to sell and recognized a loss on the sale of $1,686 in 2005. During the third quarter of 2005, the Company sold a European medical product sterilization business that was classified as held for sale during the second quarter of 2005 and recognized a pre-tax gain on the sale of $2,122 in 2005. During the second

quarter of 2005, the Company adopted a plan to sell a small medical business and recognized a loss of $4,560 in 2005 based upon the excess of the carrying value of the business as compared to the estimated fair value of the business less costs to sell. On February 28, 2005, the Company completed the sale of Sermatech International, received gross proceeds of $79,868 and recorded a net gain on the sale of $34,415 in 2005.

During the fourth quarter of 2004, the Company recognized a loss of $50,531 based upon a write-down of the automotive pedal systems business from its carrying value to the estimated fair value of the business less

TELEFLEX INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Concluded)

costs to sell. $44,466 of the write-down applied to long-lived assets, consisting primarily of machinery and equipment.

For financial statement purposes, the assets, liabilities, results of operations and cash flows of these businesses have been segregated from those of continuing operations and are presented in the Company s consolidated financial statements as discontinued operations and assets and liabilities held for sale.

Revenues of discontinued operations were $3,980, $112,515 and $227,967 for 2006, 2005 and 2004, respectively. Operating income (loss) from discontinued operations was $(483), $2,304 and $(68,262) for 2006, 2005 and 2004, respectively.

As part of the Company s 2006 restructuring program, the Company determined that assets totaling $4,062 met the criteria for held for sale classification during 2006. The assets are comprised primarily of land and a building that are no longer being used in the Company s operations. In December 2006, the Company sold these assets and recognized a loss on the sale of $106. Also during 2006, the Company sold assets, including assets held for sale totaling $3,007, and recognized an aggregate net loss on these sales of $732. The Company is actively marketing its remaining assets held for sale.

As part of the Company s 2004 restructuring and divestiture program, the Company determined that assets totaling $32,789 met the criteria for held for sale classification during 2005. The assets are comprised primarily of land and buildings that are no longer being used in the Company s operations. The Company determined that the carrying value of each asset held for sale did not exceed the estimated fair value of the asset less costs to sell and therefore did not adjust the carrying value of the asset in 2005.

In October 2005, the Company completed the sale of a product line in its Medical Segment. The Company received gross proceeds of $10,265 and recorded a pre-tax gain on the sale of $8,989. Also during 2005, the Company sold assets, including assets held for sale totaling $12,942, and recognized an aggregate net gain on these sales of $5,234.

During 2004, the Company sold six non-strategic businesses resulting in a net pre-tax gain of $2,733. No individual transaction resulted in a material gain or loss.

Assets and liabilities held for sale are comprised of the following:

	2006	2005
Assets held for sale:		
Accounts receivable, net	$	$ 1,341
Inventories		47
Property, plant and equipment	10,185	14,451
Other		1,060
Total assets held for sale	$ 10,185	$ 16,899
Liabilities held for sale:		

Accrued expenses	$	$ 66

QUARTERLY DATA (UNAUDITED)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Dollars in thousands, except per share)			
2006:				
Revenues[1]	$ 632,167	$ 682,615	$ 639,132	$ 692,843
Gross profit[1]	183,598	202,524	185,142	202,928
Income from continuing operations before interest, taxes and minority interest	56,629	62,556	67,311	68,116
Income from continuing operations	29,000	36,027	36,282	38,621
Income (loss) from discontinued operations	106	612	(316)	(902)
Net income	29,106	36,639	35,966	37,719
Earnings (losses) per share basic[2]:				
Income from continuing operations	$ 0.72	$ 0.90	$ 0.92	$ 0.99
Income (loss) from discontinued operations		0.02	(0.01)	(0.02)
Net income	$ 0.72	$ 0.91	$ 0.91	$ 0.97
Earnings (losses) per share diluted[2]:				
Income from continuing operations	$ 0.71	$ 0.89	$ 0.92	$ 0.98
Income (loss) from discontinued operations		0.02	(0.01)	(0.02)
Net income	$ 0.72	$ 0.90	$ 0.91	$ 0.96
2005:				
Revenues[1]	$ 623,600	$ 657,009	$ 587,390	$ 646,553
Gross profit[1]	173,742	190,238	166,063	179,908
Income from continuing operations before interest, taxes and minority interest	50,101	67,362	61,190	69,415
Income from continuing operations	24,865	38,138	35,714	41,055
Income (loss) from discontinued operations	13,861	(9,165)	(2,114)	(3,537)
Net income	38,726	28,973	33,600	37,518
Earnings (losses) per share basic[2]:				
Income from continuing operations	$ 0.61	$ 0.94	$ 0.88	$ 1.02
Income (loss) from discontinued operations	0.34	(0.23)	(0.05)	(0.09)
Net income	$ 0.96	$ 0.71	$ 0.83	$ 0.93
Earnings (losses) per share diluted[2]:				
Income from continuing operations	$ 0.61	$ 0.93	$ 0.87	$ 1.00
Income (loss) from discontinued operations	0.34	(0.22)	(0.05)	(0.09)
Net income	$ 0.95	$ 0.71	$ 0.82	$ 0.92

(1) Amounts exclude the impact of the automotive pedal systems business, Sermatech International business, European medical product sterilization business and small medical business, which have been presented in the Company s consolidated financial results as discontinued operations.

(2) The sum of the quarterly per share amounts may not equal per share amounts reported for year-to-date periods. This is due to changes in the number of weighted average shares outstanding and the effects of rounding for each period.

TELEFLEX INCORPORATED

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Balance at Beginning of Year	Additions Charged to Income	Doubtful Accounts Written Off	Translation and Other	Balance at End of Year
December 31, 2006	$ 10,090	$ 4,225	$ (4,018)	$ (200)	$ 10,097
December 25, 2005	$ 11,296	$ 2,773	$ (2,310)	$ (1,669)	$ 10,090
December 26, 2004	$ 9,273	$ 3,726	$ (3,697)	$ 1,994	$ 11,296

INVENTORY RESERVE

	Balance at Beginning of Year	Additions Charged to Income	Inventory Write-offs	Translation and Other	Balance at End of Year
December 31, 2006:					
Raw materials	$ 20,067	$ 12,124	$ (11,481)	$ 1,565	$ 22,275
Work-in-process	1,635	1,703	(908)	177	2,607
Finished goods	22,871	9,074	(8,413)	(1,841)	21,691
	$ 44,573	$ 22,901	$ (20,802)	$ (99)	$ 46,573
December 25, 2005:					
Raw materials	$ 25,368	$ 4,836	$ (9,865)	$ (272)	$ 20,067
Work-in-process	1,660	506	(458)	(73)	1,635
Finished goods	34,248	5,187	(13,964)	(2,600)	22,871
	$ 61,276	$ 10,529	$ (24,287)	$ (2,945)	$ 44,573
December 26, 2004:					
Raw materials	$ 15,100	$ 14,820	$ (6,803)	$ 2,251	$ 25,368
Work-in-process	1,137	646	(37)	(86)	1,660
Finished goods	26,350	11,155	(4,251)	994	34,248
	$ 42,587	$ 26,621	$ (11,091)	$ 3,159	$ 61,276

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INDEX TO EXHIBITS

The following exhibits are filed as part of, or incorporated by referenced into, this report:

Exhibit No.	Description
*3.1	Articles of Incorporation of the Company (except for Article Thirteenth and the first paragraph of Article Fourth) are incorporated by reference to Exhibit 3(a) to the Company s Form 10-Q for the period ended June 30, 1985. Article Thirteenth of the Company s Articles of Incorporation is incorporated by reference to Exhibit 3 of the Company s Form 10-Q for the period ended June 28, 1987. The first paragraph of Article Fourth of the Company s Articles of Incorporation is incorporated by reference to Exhibit 3(a) of the Company s Form 10-K for the year ended December 27, 1998.
*3.2	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company s Form 10-K filed on March 20, 2006).
*4.1	Shareholders Rights Plan of the Company (incorporated by reference to the Company s Form 8-K dated December 7, 1998).
*10.1	1990 Stock Compensation Plan (incorporated by reference to the Company s registration statement on Form S-8 (Registration No. 33-34753), revised and restated as of December 1, 1997 incorporated by reference to Exhibit 10(b) of the Company s Form 10-K for the year ended December 28, 1997. As subsequently amended and restated on Form S-8 (Registration No. 333-59814) which is herein incorporated by reference).
*10.2	Salaried Employees Pension Plan, as amended and restated in its entirety, effective July 1, 1989 and the retirement income plan as amended and restated in its entirety effective January 1, 1994 and related Trust Agreements, dated July 1, 1994 (incorporated by reference to the Company s Form 10-K for the year ended December 25, 1994).
*10.3	Teleflex Incorporated Deferred Compensation Plan effective as of January 1, 1995, and amended and restated on Form S-8 (Registration No. 333-77601) (incorporated by reference to Exhibit 10(f) of the Company s Form 10-K for the year ended December 27, 1998).
+*10.4	Information on the Company s Performance Participation Plan, insurance arrangements with certain officers and deferred compensation arrangements with certain officers, non-qualified supplementary pension plan for salaried employees and compensation arrangements with directors (incorporated by reference to the Company s definitive Proxy Statement for the 2006 Annual Meeting of Stockholders filed on April 6, 2006).
*10.5	Voluntary Investment Plan of the Company (incorporated by reference to Exhibit 28 of the Company s registration statement on Form S-8 (Registration No. 2-98715), as amended and revised on Form S-8 (Registration No. 333-101005), filed November 5, 2002).
*10.6	2000 Stock Compensation Plan (incorporated by reference to the Company s registration statement on Form S-8 (Registration No. 333-38224), filed on May 31, 2000).
*10.7	Global Employee Stock Purchase Plan of the Company (incorporated by reference to the Company s registration statement on Form S-8 (Registration No. 333-41654) filed on July 18, 2000).
+*10.8	Teleflex Incorporated Executive Incentive Plan (incorporated by reference to Appendix B to the Company s definitive Proxy Statement for the 2006 Annual Meeting of Stockholders filed on April 6, 2006).
+*10.9	Letter Agreement, dated July 2, 2004, between the Company and Martin S. Headley (incorporated by reference to Exhibit 10(i) to the Company s Form 10-K filed on March 9, 2005).

+*10.10	Letter Agreement, dated September 23, 2004, between the Company and Laurence G. Miller (incorporated by reference to Exhibit 10(j) to the Company s Form 10-K filed on March 9, 2005).
+*10.11	Executive Change In Control Agreement, dated June 21, 2005, between the Company and Jeffrey P. Black (incorporated by reference to Exhibit 10(m) to the Company s Form 10-Q filed on July 27, 2005).
+*10.12	Executive Change In Control Agreement, dated June 21, 2005, between the Company and Martin S. Headley (incorporated by reference to Exhibit 10(m) to the Company s Form 10-Q filed on July 27, 2005).
+*10.13	Executive Change In Control Agreement, dated June 21, 2005, between the Company and Laurence G. Miller (incorporated by reference to Exhibit 10(o) to the Company s Form 10-Q filed on July 27, 2005).
+*10.14	Executive Change In Control Agreement, dated June 21, 2005, between the Company and Kevin K. Gordon (incorporated by reference to Exhibit 10(p) to the Company s Form 10-Q filed on July 27, 2005).

Exhibit No.	Description
+*10.15	Executive Change In Control Agreement, dated June 21, 2005, between the Company and Vincent Northfield (incorporated by reference to Exhibit 10.16 to the Company s Form 10-K filed on March 20, 2006).
+*10.16	Executive Change In Control Agreement, dated October 23, 2006, between the Company and R. Ernest Waaser (incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on October 25, 2006).
+*10.17	Executive Change In Control Agreement, dated July 13, 2005, between the Company and John Suddarth (incorporated by reference to Exhibit 10.18 to the Company s Form 10-K filed on March 20, 2006).
+*10.18	Amended and Restated Agreement, dated July 31, 2006, between the Company and John J. Sickler (incorporated by reference to Exhibit 10.1 to the Company s Form 10-Q filed on August 1, 2006).
+*10.19	Letter Agreement, dated October 13, 2006, between the Company and R. Ernest Waaser (incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on October 25, 2006).
+*10.20	Letter Agreement, dated August 10, 2006, between the Company and Charles E. Williams (incorporated by reference to Exhibit 99.1 to the Company s Form 8-K filed on September 25, 2006).
*10.21	Amended and Restated Credit Agreement, dated October 30, 2006, between Teleflex Incorporated, the Lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, JPMorgan Securities Inc. and Banc of America Securities LLC, as Joint Lead Arrangers and Joint Bookrunners, Bank of America, N.A., as Syndication Agent, and HSBC Bank USA, National Association, PNC Bank, National Association and Wachovia Bank, National Association, as Documentation Agents (incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on November 3, 2006).
*14	Code of Ethics policy applicable to the Company s Chief Executive Officer and senior financial officers (incorporated by reference to Exhibit 14 of the Company s Form 10-K filed on March 11, 2004).
21	Subsidiaries of the Company.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer, Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer, Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Each such exhibit has heretofore been filed with the Securities and Exchange Commission as part of the filing indicated and is incorporated herein by reference.

\+ Indicates management contract or compensatory plan or arrangement required to be filed pursuant to Item 15(b) of this report.