

POOL CORP  
Form 10-Q  
April 30, 2010

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

FORM 10-Q

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

For the quarterly period ended March 31, 2010

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-26640

POOL CORPORATION  
(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

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

70433-5001  
(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

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any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES " NO "

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

Large accelerated filer ☒ x

Accelerated filer "

Non-accelerated filer " (Do not check if a smaller reporting company)

Smaller reporting company "

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

At April 23, 2010, there were 49,472,216 outstanding shares of the registrant's common stock, \$.001 par value per share.

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POOL CORPORATION  
Form 10-Q  
For the Quarter Ended March 31, 2010

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

|   | Three Months Ended<br>March 31, |            |
|---|---------------------------------|------------|
|   | 2010                            | 2009       |
| Net sales   | \$ 269,833                      | \$ 276,626 |
| Cost of sales   | 193,541                         | 195,433    |
| Gross profit  | 76,292                          | 81,193     |
| Selling and administrative expenses                       | 84,180                          | 84,839     |
| Operating loss  | (7,888)                         | (3,646)    |
| Interest expense, net                                     | 2,354                           | 3,327      |
| Loss before income tax benefit and equity earnings (loss) | (10,242)                        | (6,973)    |
| Income tax benefit  | (4,025)                         | (2,740)    |
| Equity earnings (loss) in unconsolidated investments, net | 106                             | (2,003)    |
| Net loss  | \$ (6,111)                      | \$ (6,236) |
| Loss per share:   |                                 |            |
| Basic   | \$ (0.12)                       | \$ (0.13)  |
| Diluted   | \$ (0.12)                       | \$ (0.13)  |
| Weighted average shares outstanding:                      |                                 |            |
| Basic   | 49,194                          | 48,287     |
| Diluted   | 49,194                          | 48,287     |
| Cash dividends declared per common share                  | \$ 0.13                         | \$ 0.13    |

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

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

|   | March 31,<br>2010<br>(Unaudited) | March 31,<br>2009<br>(Unaudited) | December<br>31,<br>2009 (1) |
|---|----------------------------------|----------------------------------|-----------------------------|
| <b>Assets</b>   |                                  |                                  |                             |
| <b>Current assets:</b>  |                                  |                                  |                             |
| Cash and cash equivalents   | \$ 11,494                        | \$ 13,103                        | \$ 15,843                   |
| Receivables, net  | 157,568                          | 20,373                           | 96,364                      |
| Receivables pledged under<br>receivables facility   | —                                | 139,945                          | —                           |
| Product inventories, net  | 382,380                          | 397,863                          | 355,528                     |
| Prepaid expenses and other current<br>assets  | 13,513                           | 7,973                            | 12,901                      |
| Deferred income taxes   | 10,681                           | 11,908                           | 10,681                      |
| <b>Total current assets</b>   | <b>575,636</b>                   | <b>591,165</b>                   | <b>491,317</b>              |
| Property and equipment, net   | 32,206                           | 34,677                           | 31,432                      |
| Goodwill  | 176,923                          | 169,936                          | 176,923                     |
| Other intangible assets, net  | 13,454                           | 13,035                           | 13,917                      |
| Equity interest investments   | 1,087                            | 27,804                           | 1,006                       |
| Other assets, net   | 28,556                           | 27,158                           | 28,504                      |
| <b>Total assets</b>   | <b>\$ 827,862</b>                | <b>\$ 863,775</b>                | <b>\$ 743,099</b>           |
| <b>Liabilities and stockholders' equity</b>   |                                  |                                  |                             |
| <b>Current liabilities:</b>   |                                  |                                  |                             |
| Accounts payable  | \$ 251,590                       | \$ 201,300                       | \$ 178,391                  |
| Accrued expenses and other current<br>liabilities   | 25,429                           | 24,911                           | 33,886                      |
| Short-term financing  | —                                | 8,000                            | —                           |
| Current portion of long-term debt<br>and other long-term liabilities  | 36,223                           | 16,613                           | 48,236                      |
| <b>Total current liabilities</b>  | <b>313,242</b>                   | <b>250,824</b>                   | <b>260,513</b>              |
| Deferred income taxes   | 21,979                           | 19,014                           | 21,920                      |
| Long-term debt  | 242,150                          | 356,721                          | 200,700                     |
| Other long-term liabilities   | 7,646                            | 5,736                            | 7,779                       |
| <b>Total liabilities</b>  | <b>585,017</b>                   | <b>632,295</b>                   | <b>490,912</b>              |
| <b>Stockholders' equity:</b>  |                                  |                                  |                             |
| Common stock, \$.001 par value;<br>100,000,000 shares authorized;<br>49,439,423, 48,358,089 and<br>48,991,729 shares issued and<br>outstanding at March 31, 2010,<br>March 31, 2009 and |                                  |                                  |                             |

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|   |            |            |            |
|---|------------|------------|------------|
| December 31, 2009, respectively               | 49         | 48         | 49         |
| Additional paid-in capital                    | 207,803    | 192,261    | 202,784    |
| Retained earnings                             | 33,066     | 41,832     | 47,128     |
| Accumulated other comprehensive income (loss) | 1,927      | (2,661)    | 2,226      |
| Total stockholders' equity                    | 242,845    | 231,480    | 252,187    |
| Total liabilities and stockholders' equity    | \$ 827,862 | \$ 863,775 | \$ 743,099 |

(1) Derived from audited financial statements.

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

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

|   | Three Months Ended<br>March 31, |            |
|---|---------------------------------|------------|
|   | 2010                            | 2009       |
| Operating activities  |                                 |            |
| Net loss  | \$ (6,111)                      | \$ (6,236) |
| Adjustments to reconcile net loss to net cash used<br>in operating activities:  |                                 |            |
| Depreciation  | 2,224                           | 2,209      |
| Amortization  | 567                             | 662        |
| Share-based compensation  | 1,871                           | 1,321      |
| Excess tax benefits from share-based compensation                               | (795)                           | (275)      |
| Equity (earnings) loss in unconsolidated<br>investments                         | (106)                           | 3,353      |
| Other   | (2,329)                         | (2,458)    |
| Changes in operating assets and liabilities, net of<br>effects of acquisitions: |                                 |            |
| Receivables   | (59,755)                        | (44,221)   |
| Product inventories   | (26,576)                        | 7,510      |
| Accounts payable  | 73,244                          | 27,600     |
| Other current assets and liabilities  | (7,518)                         | (35,432)   |
| Net cash used in operating activities   | (25,284)                        | (45,967)   |
| Investing activities  |                                 |            |
| Purchase of property and equipment, net of sale<br>proceeds                     | (3,133)                         | (3,881)    |
| Net cash used in investing activities   | (3,133)                         | (3,881)    |
| Financing activities  |                                 |            |
| Proceeds from revolving line of credit  | 99,050                          | 87,121     |
| Payments on revolving line of credit  | (57,600)                        | (19,400)   |
| Proceeds from asset-backed financing  | —                               | 13,000     |
| Payments on asset-backed financing  | —                               | (25,792)   |
| Payments on long-term debt and other long-term<br>liabilities                   | (12,043)                        | (1,536)    |
| Payments of deferred financing costs  | (145)                           | (188)      |
| Excess tax benefits from share-based compensation                               | 795                             | 275        |
| Proceeds from stock issued under share-based<br>compensation plans              | 2,353                           | 1,000      |
| Payments of cash dividends  | (6,418)                         | (6,279)    |
| Purchases of treasury stock   | (1,533)                         | (59)       |
| Net cash provided by financing activities                                       | 24,459                          | 48,142     |
| Effect of exchange rate changes on cash   | (391)                           | (953)      |
| Change in cash and cash equivalents   | (4,349)                         | (2,659)    |

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|  |           |           |
|--|-----------|-----------|
| Cash and cash equivalents at beginning of period | 15,843    | 15,762    |
| Cash and cash equivalents at end of period       | \$ 11,494 | \$ 13,103 |

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



POOL CORPORATION  
Notes to Consolidated Financial Statements  
(Unaudited)

Note 1 – Summary of Significant Accounting Policies

Pool Corporation (the Company, which may be referred to as POOL, we, us or our) prepared the unaudited interim Consolidated Financial Statements following U.S. generally accepted accounting principles (GAAP) and the requirements of the Securities and Exchange Commission (SEC) for interim financial information. As permitted under those rules, certain footnotes and other financial information required by GAAP for complete financial statements have been condensed or omitted. The Consolidated Financial Statements include all normal and recurring adjustments that are necessary for a fair presentation of our financial position and operating results including the elimination of all significant intercompany accounts and transactions among our wholly owned subsidiaries.

A description of our significant accounting policies is included in our 2009 Annual Report on Form 10-K/A. The Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and accompanying notes in our Annual Report. The results for the three month period ended March 31, 2010 are not necessarily indicative of the results to be expected for the twelve months ending December 31, 2010.

Equity Method Investments

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

Note 2 – Loss Per Share

We calculate basic earnings (loss) per share (EPS) by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted EPS includes the dilutive effects of stock option awards.

Since we reported a net loss for both the first quarter of 2010 and 2009, there is no difference between the basic and diluted weighted average shares outstanding for these periods. Potentially dilutive shares are excluded from the computation if their effect is anti-dilutive, meaning that the loss per share would decrease. For informational purposes, the table below presents the amounts we have excluded from the computation of diluted weighted average shares outstanding (in thousands):

|  | Three Months Ended<br>March 31, |        |
|--|---------------------------------|--------|
|  | 2010                            | 2009   |
| Weighted average common<br>shares outstanding: |                                 |        |
| Basic  | 49,194                          | 48,287 |
| Effect of dilutive<br>securities:              |                                 |        |
| Stock options                                  | 611                             | 329    |
| Employee stock<br>purchase plan                | 3                               | 2      |

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|         |        |        |
|---------|--------|--------|
| Diluted | 49,808 | 48,618 |
|---------|--------|--------|

The weighted average diluted shares outstanding in this computation also exclude stock options to purchase 2,039,050 shares at March 31, 2010 and 2,877,610 shares at March 31, 2009, which are considered anti-dilutive because the exercise prices for these options are higher than our common stock's average market price.

## Note 3 – Comprehensive Loss

Comprehensive loss includes net loss, foreign currency translation adjustments and the unrealized gain or loss on interest rate swaps. The table below presents comprehensive loss (in thousands):

|                    | Three Months Ended<br>March 31, |            |
|--------------------|---------------------------------|------------|
|                    | 2010                            | 2009       |
| Comprehensive loss | \$ (6,410)                      | \$ (6,511) |

The table below presents the components of and changes in Accumulated other comprehensive income (loss) as of and for the three month period ended March 31, 2010 (in thousands):

|                                 | Foreign<br>Currency<br>Translation | Unrealized<br>Gain<br>(Loss)<br>on Interest<br>Rate<br>Swaps (1) | Total    |
|---------------------------------|------------------------------------|--|----------|
| Balance at December 31,<br>2009 | \$ 5,255                           | \$ (3,029)   | \$ 2,226 |
| Net change                      | (391)                              | 92   | (299)    |
| Balance at March 31,<br>2010    | \$ 4,864                           | \$ (2,937)   | \$ 1,927 |

(1) Amounts are shown net of tax.

## Note 4 – Debt

On March 1, 2010, we amended certain provisions in our unsecured syndicated senior credit facility (the Credit Facility) to increase the dividend limitation in 2010 from 50% to 55% of our 2009 Net Income (as defined in the Credit Facility agreement). All other provisions of our Credit Facility remain the same.

## Note 5 – Fair Value Measurements and Interest Rate Swaps

Accounting Standards Codification 820, Fair Value Measurements and Disclosures, provides a framework for measuring fair value and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs), the next priority to observable market based inputs or unobservable inputs that are corroborated by market data (Level 2 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

In measuring the fair value of our assets and liabilities, we use significant other observable market data or assumptions (Level 2 inputs) that we believe market participants would use in pricing an asset or liability, including assumptions about risk when appropriate. Our assets and liabilities that are measured at fair value on a recurring basis include the unrealized gain or loss on our interest rate swaps.

We have three interest rate swap agreements currently in effect that reduce our exposure to fluctuations in interest rates on our Floating Rate Senior Notes (the Notes), our variable rate Term Loan under our Credit Facility and our

\$240.0 million five-year revolving credit facility (the Revolver), which is part of our Credit Facility.

We have an interest rate swap agreement that converts the variable interest rate on the Notes to a fixed rate of 5.088% on the initial notional amount of \$100.0 million, which decreased to a notional amount of \$50.0 million in February 2010. This swap agreement terminates on February 12, 2012.

We have an interest rate swap agreement that converts the variable interest rate on the Term Loan to a fixed rate of 2.4% on the initial notional amount, which decreases as payments are made on the Term Loan until maturity on December 20, 2010.

Effective January 27, 2010, the interest rate swap agreement on our Revolver converts the Revolver's variable interest rate to a fixed rate of 1.725% on a notional amount of \$50.0 million. This swap agreement terminates on January 27, 2012.

We recognize any differences between the variable interest rate payments and the fixed interest rate settlements from our swap counterparties as an adjustment to interest expense over the life of the swaps. We have designated these swaps as cash flow hedges and we record the changes in the fair value of the swaps to Accumulated other comprehensive income (loss). Since inception, we have not recognized any gains or losses on these swaps through income and there has been no effect on income from hedge ineffectiveness. The table below presents the fair value of our swap agreements as of March 31, 2010 (in thousands):

| Balance Sheet Line Item                           | Unrealized Losses |
|---|-------------------|
| Accrued expenses \$ and other current liabilities | (4,838)           |

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

As discussed in Note 1 to the Consolidated Financial Statements in our 2009 Annual Report on Form 10-K/A, the carrying amount of long-term debt approximates fair value as it bears interest at variable rates.

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

You should read the following discussion in conjunction with Management's Discussion and Analysis included in our 2009 Annual Report on Form 10-K/A. For a discussion of our base business calculations, see page 10 under the RESULTS OF OPERATIONS section.

### OVERVIEW

#### Financial Results

March is the official start of the pool season and we continue to see moderating sales declines as evidenced by a 5% decrease in base business sales in the first quarter of 2010 versus double digit base business sales declines for each quarter in 2009. More significantly, we realized flat base business sales in March excluding the benefit of one extra selling day compared to March 2009.

Net sales for the seasonally slow first quarter decreased approximately 3%, with base business sales down 5% due to higher sales in the first quarter of 2009 for new drains and related safety products driven by regulatory changes, unfavorable weather conditions during the first two months of 2010 and continued weakness in irrigation construction markets.

Gross profit as a percentage of net sales (gross margin) declined 110 basis points to 28.3% in the first quarter of 2010 due to the competitive pricing environment and the favorable impact to gross margin in the first quarter of 2009 that resulted from our volume of inventory purchases ahead of vendor price increases in the second half of 2008.

Selling and administrative expenses (operating expenses) decreased 1% in the first quarter of 2010 compared to the same period in 2009. Base business operating expenses decreased 3% compared to the first quarter of 2009 due primarily to the benefit of cost measures implemented during 2009.

Operating loss was \$7.9 million in the first quarter of 2010 compared to an operating loss of \$3.6 million in the same period in 2009. Interest expense decreased 29% compared to the first quarter of 2009 due to a \$99.5 million decrease in average debt levels. We no longer have an equity interest in Latham Acquisition Corporation (LAC) and we did not recognize any impact related to LAC's first quarter 2010 results. In the first quarter of 2009, Equity loss in unconsolidated investments, net included \$2.1 million related to LAC.

Loss per share for the first quarter of 2010 was \$0.12 per diluted share on a net loss of \$6.1 million, compared to a loss of \$0.13 per diluted share on a net loss of \$6.2 million in the same period in 2009.

#### Financial Position and Liquidity

Total net receivables decreased 2% to \$157.6 million at March 31, 2010 from \$160.3 million at March 31, 2009 due primarily to the decline in sales. Our allowance for doubtful accounts balance was approximately \$10.0 million at March 31, 2010, a decrease of \$3.4 million compared to March 31, 2009. The allowance for doubtful accounts has decreased approximately \$1.4 million from December 31, 2009 to March 31, 2010. Days sales outstanding (DSO) decreased between periods to 34.2 days at March 31, 2010 compared to 36.3 days at March 31, 2009.

Our inventory levels decreased 4% to \$382.4 million as of March 31, 2010 compared to \$397.9 million as of March 31, 2009. Excluding inventory related to our October 2009 acquisition of General Pool & Spa Supply (GPS), inventories were down approximately 6% reflecting our focus on effective ordering and stock management. Our inventory turns, as calculated on a trailing twelve month basis, have remained flat at 3.1 times for both

March 31, 2010 and March 31, 2009.

Total debt outstanding was \$278.2 million at March 31, 2010, a decrease of \$103.0 million compared to March 31, 2009.

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## Current Trends

Adverse economic trends have significantly impacted our industry. These trends include a slowdown in the domestic housing market, with lower housing turnover, sharp drops in new home construction, home value deflation in many markets and a significant tightening of consumer and commercial credit. Additionally, general economic conditions have been weak, including declines in Gross Domestic Product (GDP) during the first nine months of 2009 and high unemployment rates. Some of the factors that help mitigate the impact of these negative trends on our business include the following:

- the majority of our business is driven by the ongoing maintenance and repair of existing pools and landscaped areas, with approximately 10% of our sales and gross profits tied to new pool or irrigation construction in 2009 (as our sales related to new construction activity have declined between 2006 and 2009, the proportion of our net sales represented by maintenance, repair and replacement (MRR) products has increased from over 60% to approximately 90%); and
- we believe our service-oriented model, and the investments in our business we are able to make given our financial strength, help us gain market share.

Despite these mitigating factors, the negative trends noted above have significantly impacted a number of our key markets, including California, Florida and Arizona, with a more recent adverse impact in Texas and other states. We estimate that these trends resulted in the following decreases in new pool construction in the United States since peaking in 2005 at approximately 210,000 new units:

|                                | 2009     | 2008     | 2007     | 2006     |
|--------------------------------|----------|----------|----------|----------|
| Estimated new units            | 45,000   | 90,000   | 150,000  | 200,000  |
| Unit decrease                  | (45,000) | (60,000) | (50,000) | (10,000) |
| % change from prior year units | (50)%    | )%       | (25)%    | (5)%     |
|                                |          | (40      |          |          |

Since these trends worsened from 2006 through 2009, they had a more pronounced impact on our results in 2008 and 2009. However, as evidenced by moderating base business sales declines throughout 2009 in Florida, California and Arizona (including month over month sales growth in some markets and essentially flat fourth quarter sales in Florida compared to the same periods in 2008), we believe these trends have leveled off in certain major pool markets first impacted by the housing market downturn. Our first quarter base business sales results (including flat March 2010 base business sales overall compared to March 2009) also provide indications that these trends are moderating across most other markets.

## Outlook

We have seen positive signs that indicate the first quarter of 2010 will likely mark the end of a three year downturn in our industry. The improving sales trends in the first quarter of 2010 have continued, as sales in April are trending up compared to April 2009. While we have increasing confidence in realizing positive sales comparisons to 2009 in the second quarter and balance of 2010, we expect continued pressure on gross margins given the competitive pricing environment. We continue to drive targeted expense reductions, although the rate of these decreases should continue to moderate throughout 2010 as we lap more of the impact of cost measures implemented in 2009.

We believe our initial 2010 earnings guidance of \$1.00 to \$1.15 per diluted share continues to be reasonable. The lower end of this range assumes earnings results consistent with fiscal 2009, but includes the comparative benefits from lower expected interest expense, the projected accretive impact of the GPS acquisition of approximately \$0.02



per diluted share and the fact that there will be no impact from LAC since we no longer have an equity interest in LAC as of January 2010.

Our goal is for cash provided by operations to exceed net income for fiscal 2010. However, cash provided by operations will be comparatively lower than 2009 because we will not realize the same level of improvements from our ongoing working capital management initiatives.

The forward-looking statements in this 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 Part II - Item 1A "Risk Factors" and our "Cautionary Statement for Purpose of the 'Safe Harbor' Provisions of the Private Securities Litigation Reform Act of 1995".

## RESULTS OF OPERATIONS

As of March 31, 2010, we conducted operations through 288 sales centers in North America and Europe.

The following table presents information derived from the Consolidated Statements of Income (Loss) expressed as a percentage of net sales.

|  | Three Months<br>Ended<br>March 31, |        |
|--|------------------------------------|--------|
|  | 2010                               | 2009   |
| Net sales                              | 100.0%                             | 100.0% |
| Cost of sales                          | 71.7                               | 70.6   |
| Gross profit                           | 28.3                               | 29.4   |
| Selling and<br>administrative expenses | 31.2                               | 30.7   |
| Operating loss                         | (2.9)                              | (1.3)  |
| Interest expense, net                  | 0.9                                | 1.2    |
| Loss before income tax                 | )                                  | )      |
| benefit and equity                     |                                    |        |
| earnings (loss)                        | (3.8)                              | (2.5)  |

Our discussion of consolidated operating results includes the operating results from acquisitions in 2009 and 2008. We have included the results of operations in our consolidated results since the respective acquisition dates.

### Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009

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

| (Unaudited)<br>(In thousands) | Base Business<br>Three Months<br>Ended<br>March 31, |   |           |   | Excluded<br>Three Months<br>Ended<br>March 31, |   |         |   | Total<br>Three Months<br>Ended<br>March 31, |   |           |   |
|-------------------------------|---|---|-----------|---|--|---|---------|---|---|---|-----------|---|
|                               | 2010  |   | 2009      |   | 2010   |   | 2009    |   | 2010  |   | 2009      |   |
| Net sales                     | \$261,022   |   | \$273,464 |   | \$8,811  |   | \$3,162 |   | \$269,833                                   |   | \$276,626 |   |
| Gross profit                  | 73,997  |   | 80,356    |   | 2,295  |   | 837     |   | 76,292                                      |   | 81,193    |   |
| Gross margin                  | 28.3  | % | 29.4      | % | 26.0   | % | 26.5    | % | 28.3  | % | 29.4      | % |
| Operating<br>expenses         | 80,828  |   | 83,624    |   | 3,352  |   | 1,215   |   | 84,180                                      |   | 84,839    |   |
|                               | 31.0  | % | 30.6      | % | 38.0   | % | 38.4    | % | 31.2  | % | 30.7      | % |

Expenses as a  
% of net sales

|                  |          |          |          |          |          |          |
|------------------|----------|----------|----------|----------|----------|----------|
| Operating loss   | (6,831 ) | (3,268 ) | (1,057 ) | (378 )   | (7,888 ) | (3,646 ) |
| Operating margin | (2.6 )%  | (1.2 )%  | (12.0 )% | (12.0 )% | (2.9 )%  | (1.3 )%  |

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

| Acquired                            | Acquisition Date | Net Sales Centers Acquired | Period Excluded                                 |
|-------------------------------------|------------------|----------------------------|---|
| General Pool & Spa Supply (GPS) (1) | October 2009     | 7                          | January–March 2010                              |
| Proplas Plasticos, S.L. (Proplas)   | November 2008    | 0                          | January–February 2010 and January–February 2009 |

(1) We acquired 10 GPS sales centers and have consolidated 3 of these with existing sales centers.

We exclude the following sales centers from base business results for a period of 15 months (parenthetical numbers for each category indicate the number of sales centers excluded as of March 31, 2010):

- acquired sales centers (see table above);
- existing sales centers consolidated with acquired sales centers (3);
- closed sales centers (1);
- consolidated sales centers in cases where we do not expect to maintain the majority of the existing business (0); and
- sales centers opened in new markets (0).

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 in the first quarter of 2010:

|                   |     |
|-------------------|-----|
| December 31, 2009 | 287 |
| Opened            | 1   |
| March 31, 2010    | 288 |

## Net Sales

|               | Three Months Ended March 31, |          |              |
|---------------|------------------------------|----------|--------------|
| (in millions) | 2010                         | 2009     | Change       |
| Net sales     | \$ 269.8                     | \$ 276.6 | \$(6.8) (3)% |

Base business sales for the first quarter of 2010 declined 5% compared to the first quarter of 2009, with a 3% decline on the swimming pool side of the business and a 19% decline on the irrigation side of the business. The overall base business decrease reflects the impact of the following:

- approximately \$9.0 million in sales in the first quarter of 2009 for new drains and related safety products driven by the December 2008 effective date of the Virginia Graeme Baker Pool and Spa Safety Act (VGB Act);
- unfavorable weather conditions during the first two months of 2010; and
- continued weakness in irrigation construction markets.

The decrease in base business sales was partially offset by a 12% total parts product sales increase and sales related to our October 2009 acquisition of GPS.

## Gross Profit

|               | Three Months Ended<br>March 31, |         |              |
|---------------|---------------------------------|---------|--------------|
| (in millions) | 2010                            | 2009    | Change       |
| Gross profit  | \$ 76.3                         | \$ 81.2 | \$(4.9) (6)% |
| Gross margin  | 28.3%                           | 29.4%   |              |

Gross margin decreased 110 basis points to 28.3% compared to the first quarter of 2009. The majority of this decline reflects the margin benefits realized in the first quarter of 2009 related to our volume of inventory purchases ahead of vendor price increases in the second half of 2008. However, the ongoing competitive pricing environment had a larger than expected negative impact on gross margins in the first quarter of 2010. Favorable impacts that partially offset these negative pressures on gross margin included the following:

- increased sales of parts and other maintenance items, particularly Pool Corporation branded products; and
- improved pricing and purchasing discipline.

## Operating Expenses

|  | Three Months Ended<br>March 31, |         |              |
|--|---------------------------------|---------|--------------|
| (in millions)                          | 2010                            | 2009    | Change       |
| Operating expenses                     | \$ 84.2                         | \$ 84.8 | \$(0.6) (1)% |
| Operating expenses as a % of net sales | 31.2%                           | 30.7%   |              |

Total operating expenses decreased 1% compared to the first quarter of 2009, while base business operating expenses were down 3% year over year. The decline in base business expenses is due to the following:

- the impact of our cost control initiatives, including lower payroll related costs (excluding acquisitions, headcount decreased 5% compared to March 31, 2009);
- a \$0.9 million decrease in bad debt expense; and
- the benefit of reduced facility lease costs due to renegotiated leases and recent facility consolidations.

Total operating expenses as a percentage of net sales increased between periods due to the decrease in net sales.

## Interest Expense

Interest expense decreased 29% between periods due to the impact of much lower debt levels, with our average debt outstanding down 27% in the first quarter of 2010 compared to the same period in 2009.

## Income Taxes

The increase in the income tax benefit for the first quarter of 2010 compared to the first quarter of 2009 is directly proportional to the increase in the loss before income tax benefit and equity earnings (loss), as our effective income tax rate of 39.30% at March 31, 2010 was essentially unchanged from 39.29% at March 31, 2009.

## Net Loss and Loss Per Share

Net loss decreased to \$6.1 million in the first quarter of 2010 from \$6.2 million in the first quarter of 2009. Our net loss was \$0.12 per diluted share for the first quarter of 2010 compared to a net loss of \$0.13 per diluted share for the same period in 2009. Diluted earnings per share for the first quarter of 2009 included a \$0.04 dilutive impact related to our former equity investment in LAC.

## 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 2009, approximately 67% 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. Our accounts payable balance was lower than normal seasonal levels as of March 31, 2009 due to early payments we made through the first quarter of 2009 to take advantage of pre-price increase inventory purchases and early payment discounts offered by certain vendors. Excluding borrowings to finance acquisitions and share repurchases, our peak borrowing usually occurs during the second quarter, primarily because extended payment terms offered by our suppliers typically are payable in April, May and June, while our peak accounts receivable collections typically occur in June, July and August.

The following table presents certain unaudited quarterly data for the first quarter of 2010, the four quarters of 2009 and the second, third and fourth quarters of 2008. 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 an accurate indication of results for an entire fiscal year or of continuing trends.

| (Unaudited)<br>(in<br>thousands)      | QUARTERS      |            |               |            |            |            |               |            |
|---------------------------------------|---------------|------------|---------------|------------|------------|------------|---------------|------------|
|                                       | 2010<br>First | Fourth     | 2009<br>Third | Second     | First      | Fourth     | 2008<br>Third | Second     |
| Statement of<br>Income<br>(Loss) Data |               |            |               |            |            |            |               |            |
| Net sales                             | \$ 269,833    | \$ 231,032 | \$ 430,054    | \$ 602,082 | \$ 276,626 | \$ 258,966 | \$ 493,530    | \$ 692,972 |
| Gross profit                          | 76,292        | 67,069     | 123,394       | 178,068    | 81,193     | 75,322     | 141,800       | 202,752    |
| Operating<br>income                   | )             | )          |               |            | )          | )          |               |            |
| (loss)                                | (7,888        | (21,776    | 32,142        | 81,720     | (3,646     | (15,328    | 38,617        | 89,990     |
| Net income                            | )             | )          | )             |            | )          | )          |               |            |
| (loss)                                | (6,111        | (13,606    | (9,322)       | 48,366     | (6,236     | (14,795    | 22,060        | 52,875     |
| Balance<br>Sheet Data                 |               |            |               |            |            |            |               |            |
| Total<br>receivables,<br>net          | \$ 157,568    | \$ 96,364  | \$ 149,733    | \$ 233,288 | \$ 160,318 | \$ 115,584 | \$ 178,927    | \$ 278,654 |
| Product<br>inventories,<br>net        | 382,380       | 355,528    | 318,177       | 325,198    | 397,863    | 405,914    | 345,944       | 385,258    |
| Accounts<br>payable                   | 251,590       | 178,391    | 137,761       | 194,004    | 201,300    | 173,688    | 128,329       | 193,663    |
| Total debt                            | 278,150       | 248,700    | 273,300       | 334,015    | 381,221    | 327,792    | 337,742       | 441,992    |



- (1) Includes the impact of a \$26.5 million equity loss that we recognized in September 2009 related to our pro rata share of LAC's non-cash goodwill and other intangible asset impairment charge. The recognized loss resulted in the full write-off of our equity method investment in LAC.

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

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

| Weather  | Possible Effects   |
|--|--|
| Hot and dry  | <ul style="list-style-type: none"> <li>Increased purchases of chemicals and supplies for existing swimming pools</li> <li>Increased purchases of above-ground pools and irrigation products</li> </ul>                                   |
| Unseasonably cool weather or extraordinary amounts of rain   | <ul style="list-style-type: none"> <li>Fewer pool and landscape installations</li> <li>Decreased purchases of chemicals and supplies</li> <li>Decreased purchases of impulse items such as above-ground pools and accessories</li> </ul> |
| Unseasonably early warming trends in spring/late cooling trends in fall (primarily in the northern half of the US) | <ul style="list-style-type: none"> <li>A longer pool and landscape season, thus increasing our sales</li> </ul>  |
| Unseasonably late warming trends in spring/early cooling trends in fall (primarily in the northern half of the US) | <ul style="list-style-type: none"> <li>A shorter pool and landscape season, thus decreasing our sales</li> </ul>   |

Our first quarter 2010 sales were negatively impacted by unfavorable weather conditions across the Sunbelt markets between January and mid-March, including record cold weather in Florida and much colder than average temperatures across the rest of the Southeast. However, warmer weather in these regions during the latter half of March and near record warm temperatures in March across our markets in the Northeast and Canada helped drive a late rebound in our daily sales rates and flat base business sales overall for March compared to the same period last year.

## LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

- maintenance and new sales center capital expenditures, which have averaged approximately 0.5% to 0.75% of net sales historically, but was below and at the bottom of this range for the past two years due to lower capacity expansion;
- strategic acquisitions executed opportunistically;
- payment of cash dividends as and when declared by the Board; and
- repayment of debt.

While we still have our Board authorized share repurchase program in place with \$53.0 million of the current authorized amount remaining available as of April 23, 2010, this is not a current priority for the use of cash.

#### Sources and Uses of Cash

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

|                      | Three Months Ended |            |
|----------------------|--------------------|------------|
|                      | March 31,          |            |
|                      | 2010               | 2009       |
| Operating activities | \$(25,284)         | \$(45,967) |
| Investing activities | (3,133)            | (3,881)    |
| Financing activities | 24,459             | 48,142     |

The seasonal use of cash in operations decreased to \$25.3 million in the first quarter of 2010 compared to \$46.0 million in the same period of 2009. The 2009 amount was negatively impacted by a \$30.0 million tax payment we made in January 2009 for estimated third and fourth quarter 2008 federal income taxes, which were deferred as allowed by the IRS for taxpayers in areas affected by Hurricane Gustav. Cash provided by financing activities for the first three months of 2010 reflects lower net debt borrowings compared to the same period in 2009.

#### Future Sources and Uses of Cash

Our unsecured syndicated senior credit facility (the Credit Facility) provides for \$300.0 million in borrowing capacity including a \$240.0 million five-year revolving credit facility (the Revolver) and a term loan (the Term Loan) with an original principal amount of \$60.0 million.

At March 31, 2010, there was \$142.2 million outstanding and \$95.8 million available for borrowing under the Revolver. The Revolver matures on December 20, 2012. The weighted average effective interest rate on the Revolver was approximately 2.4% for the three months ended March 31, 2010. In April 2009, we entered into an interest rate swap agreement to reduce our future exposure to fluctuations in interest rates on the Revolver. This swap agreement converts the Revolver's variable interest rate to a fixed rate of 1.725% on a notional amount of \$50.0 million. The swap was effective on January 27, 2010 and will terminate on January 27, 2012.

At March 31, 2010, there was \$36.0 million outstanding under the Term Loan, all of which is classified as current. The Term Loan has remaining principal payments of \$12.0 million per quarter in the last three quarters of 2010, and we intend to fund these payments by using cash provided by operations and borrowings under our Revolver. Our current interest rate swap agreement reduces our exposure to fluctuations in interest rates for the remaining outstanding period of the Term Loan by converting our variable rate to a fixed rate basis. This swap will terminate when the Term Loan matures on December 20, 2010. The weighted average effective interest rate on the

Term Loan was approximately 3.2% for the three months ended March 31, 2010.

The Credit Facility includes sublimits for the issuance of swingline loans and standby letters of credit. Pursuant to an accordion feature, the aggregate maximum principal amount of the commitments under the Revolver may be increased at our request and with agreement by the lenders, by up to \$75.0 million, to a total of \$315.0 million.

On February 12, 2007, we issued and sold \$100.0 million aggregate principal amount of Floating Rate Senior Notes (the Notes) in a private placement offering pursuant to a Note Purchase Agreement. The Notes are due February 12, 2012 and accrue interest on the unpaid principal balance at a floating rate equal to a spread of 0.600% over the three-month LIBOR, as adjusted from time to time. In February 2007, we entered into an interest rate swap agreement to reduce our exposure to fluctuations in interest rates on the Notes. The swap agreement converts the Notes' variable interest rate to a fixed rate of 5.088% on the initial notional amount of \$100.0 million, which decreased to a notional amount of \$50.0 million in February 2010.

Financial covenants on our Credit Facility and Notes are closely aligned and include a minimum fixed charge coverage ratio and maintenance of a maximum total leverage ratio, which are our most restrictive financial covenants. As of March 31, 2010, the calculations of these two covenants are detailed below:

- **Maximum Average Total Leverage Ratio.** On the last day of each fiscal quarter, our average total leverage ratio must be less than or equal to 3.25 to 1.00. Average Total Leverage Ratio is the ratio of the trailing twelve months (TTM) Average Total Funded Indebtedness plus the TTM Average Accounts Securitization Proceeds divided by the TTM EBITDA (as those terms are defined in our amended Credit Facility). As of March 31, 2010, our average total leverage ratio equaled 2.73 (compared to 2.87 as of December 31, 2009) and the TTM average total debt amount used in this calculation was \$285.5 million.
- **Minimum Fixed Charge Ratio.** On the last day of each fiscal quarter, our fixed charge ratio must be greater than 2.25 to 1.00. Fixed Charge Ratio is the ratio of the TTM EBITDAR (as defined in our amended Credit Facility) divided by TTM Interest Expense (as defined in our amended Credit Facility) paid or payable in cash plus TTM Rental Expense (as defined in our amended Credit Facility). As of March 31, 2010, our fixed charge ratio equaled 2.40 (compared to 2.42 as of December 31, 2009) and TTM Rental Expense was \$57.2 million.

The Credit Facility limits the declaration and payment of dividends on our common stock to no more than 50% of the preceding year's Net Income (as defined in our amended Credit Facility), provided no default or event of default has occurred and the dividends are declared and paid in a manner consistent with our past practice. Effective March 1, 2010, we amended certain provisions in our Credit Facility to increase the dividend limitation in 2010 from 50% to 55% of our 2009 Net Income. Failure to comply with any of our financial covenants, scheduled interest payments, scheduled principal repayments, or any other terms of our amended credit facilities could result in penalty payments, higher interest rates on our borrowings or the acceleration of the maturities of our outstanding debt. As of March 31, 2010, we were in compliance with all covenants and financial ratio requirements and believe we will remain in compliance throughout the rest of the year.

For additional information regarding our debt arrangements, see Note 5 of "Notes to Consolidated Financial Statements," included in Item 8 of our 2009 Form 10-K/A.

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

As of April 23, 2010, \$53.0 million of the current Board authorized amount under our share repurchase program remained available. While share repurchases are not a current priority, we may continue to repurchase shares on the

open market from time to time depending on market conditions. We may use cash flows from operations to fund these purchases or we may incur additional debt.

## CRITICAL ACCOUNTING ESTIMATES

We prepare our Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States (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 of Directors. For a description of our critical accounting estimates that require us to make the most difficult, subjective or complex judgments, please see our Annual Report on Form 10-K/A for the year ended December 31, 2009. We have not changed these policies from those previously disclosed.

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

#### Interest Rate Risk

There have been no material changes from what we reported in our Form 10-K/A for the year ended December 31, 2009 that affect fiscal 2010.

#### Foreign Exchange Risk

There have been no material changes from what we reported in our Form 10-K/A for the year ended December 31, 2009.

### Item 4. Controls and Procedures

The term “disclosure controls and procedures” is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Act). The rules refer to the controls and other procedures designed to ensure that information required to be disclosed in reports that we file or submit under the Act is (1) recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms and (2) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. As of March 31, 2010, management, including the CEO and CFO, performed an evaluation of the effectiveness of our disclosure controls and procedures. Based on that evaluation, management, including the CEO and CFO, concluded that as of March 31, 2010, our disclosure controls and procedures were effective.

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





## PART II. OTHER INFORMATION

### Item 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 or 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 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 or leisure related 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 90% 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 2009. A weakening economy may also cause deferrals of 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, particularly as facilitated by mortgage-backed financing markets, is a critical enabling factor in 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 pool 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 Part 1, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Seasonality and Quarterly Fluctuations,” of this Form 10-Q.

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 the success of our business. We believe that we add considerable value to the swimming pool supply chain and landscape supply chain 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 Corporation, Hayward Pool Products, Inc. and Zodiac Pool Systems, Inc., which accounted for approximately 16%, 10% and 8%, respectively, of the costs of products we sold in 2009. A decision by several suppliers, acting in concert, to sell their products directly to retail customers and 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 other distributors, retail customers or end user consumers could also adversely affect our business. We dedicate significant resources to promote the benefits and affordability of pool ownership, which we believe greatly 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 and large pool or landscape supply 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, Florida, Texas and Arizona, representing approximately 51% of our net sales in 2009, 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 direct and end-use customers 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 2005, we have opened 19 new sales centers (net of subsequent closings and consolidations of new sales centers) and have completed 9 acquisitions. These acquisitions have added 74 sales centers (net of sales center closings and consolidations within one year of acquisition) to our distribution networks. Between 2007 and 2009, we also closed or consolidated 12 existing sales centers. 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 2009, approximately 67% of our net sales and over 100% of our operating income were generated in the second and third quarters of the year, which represent the peak months of swimming pool use, installation, remodeling and repair. 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 algacides 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 20 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 source certain products we sell, including our Pool Corporation branded products, from Asia and other international sources. There is a greater risk that we may not be able to access products in a timely and efficient manner, and we may also be subject to certain trade restrictions that prevent us from obtaining products. Fluctuations in other factors relating to international trade, such as tariffs, currency exchange rates, 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 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below summarizes the repurchases of our common stock in the first quarter of 2010:

| 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) |
|---------------------|-------------------------------------|------------------------------|--|--|
| January 1-31, 2010  | 510                                 | \$ 18.51                     | —  | \$ 52,987,067  |
| February 1-28, 2010 | 74,000                              | \$ 20.60                     | —  | \$ 52,987,067  |
| March 1-31, 2010    | —                                   | \$ —                         | —  | \$ 52,987,067  |
| Total               | 74,510                              | \$ 20.59                     | —  |  |

- (1) Consists of 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.
- (2) In July 2002, our Board authorized \$50.0 million for the repurchase of shares of our common stock in the open market. In August 2004, November 2005 and August 2006, our Board increased the authorization for the repurchase of shares of our common stock in the open market to a total of \$50.0 million from the amounts remaining at each of those dates. In November 2006 and August 2007, our Board increased the authorization for the repurchase of shares of our common stock in the open market to \$100.0 million from the amounts remaining at each of those dates.
- (3) As of April 23, 2010, \$53.0 million of the authorized amount remained available under our share repurchase program.

## Item 6. Exhibits

Exhibits filed as part of this report are listed in the Index to Exhibits appearing on page 23.

Signature Page

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on April 30, 2010.

POOL CORPORATION

By:     /s/ Manuel J. Perez de la Mesa  
Manuel J. Perez de la Mesa  
President and Chief Executive Officer, and  
duly authorized signatory on behalf of the  
Registrant

## Index to Exhibits

| No.         | Description  | Filed<br>with this<br>Form<br>10-Q | Incorporated by Reference |           |               |
|-------------|--|------------------------------------|---------------------------|-----------|---------------|
|             |  |                                    | Form                      | File No.  | Date<br>Filed |
| 3.1         | Restated Certificate of Incorporation of the Company.  |                                    | 10-Q                      | 000-26640 | 08/09/2006    |
| 3.2         | Restated Composite Bylaws of the Company.  |                                    | 10-Q                      | 000-26640 | 08/09/2006    |
| 4.1         | Form of certificate representing shares of common stock of the Company.  |                                    | 8-K                       | 000-26640 | 05/19/2006    |
| 10.34       | First Amendment, entered into as of March 1, 2010, to the Amended and Restated Credit Agreement dated as of December 20, 2007, among Pool Corporation, as US Borrower, SCP Distributors Inc., as Canadian Borrower, the Lenders, Wachovia Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender, Wachovia Capital Finance Corporation (Canada) as Canadian Dollar Lender, JPMorgan Chase Bank, a syndication Agent, Wells Fargo Bank National Association, Regions Bank and Capital One, National Association, as Documentation Agents. |                                    | 10-K/A                    | 000-26640 | 03/04/2010    |
| <u>31.1</u> | Certification by Mark W. Joslin pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  | X                                  |                           |           |               |
| <u>31.2</u> | Certification by Manuel J. Perez de la Mesa pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  | X                                  |                           |           |               |
| <u>32.1</u> | Certification by Manuel J. Perez de la Mesa and Mark W. Joslin pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the   | X                                  |                           |           |               |

Sarbanes-Oxley Act of 2002.

