

POOL CORP
Form 10-Q
October 29, 2010

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 September 30, 2010

or

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

For the transition period from _____ to _____

Commission File Number: 0-26640

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

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

70433-5001
(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

At October 22, 2010, there were 49,704,907 outstanding shares of the registrant's common stock, \$.001 par value per share.

POOL CORPORATION
Form 10-Q
For the Quarter Ended September 30, 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 | | Nine Months Ended | |
|---|--------------------|------------|-------------------|-------------|
| | September 30, | | September 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Net sales | \$455,020 | \$430,054 | \$1,372,320 | \$1,308,762 |
| Cost of sales | 324,151 | 306,660 | 974,625 | 926,107 |
| Gross profit | 130,869 | 123,394 | 397,695 | 382,655 |
| Selling and administrative expenses | 93,822 | 91,252 | 279,667 | 272,439 |
| Operating income | 37,047 | 32,142 | 118,028 | 110,216 |
| Interest expense, net | 376 | 2,504 | 4,658 | 8,981 |
| Income before income taxes and equity earnings (losses) | 36,671 | 29,638 | 113,370 | 101,235 |
| Provision for income taxes | 13,902 | 11,648 | 44,044 | 39,786 |
| Equity earnings (losses) in unconsolidated investments, net | 15 | (27,312) | 117 | (28,641) |
| Net income (loss) | \$ 22,784 | \$ (9,322) | \$ 69,443 | \$ 32,808 |
| Earnings (loss) per share: | | | | |
| Basic | \$ 0.46 | \$ (0.19) | \$ 1.40 | \$ 0.68 |
| Diluted | \$ 0.45 | \$ (0.19) | \$ 1.38 | \$ 0.67 |
| Weighted average shares outstanding: | | | | |
| Basic | 49,615 | 48,799 | 49,442 | 48,543 |
| Diluted | 50,168 | 48,799 | 50,160 | 48,863 |
| Cash dividends declared per common share | | | | |
| | \$ 0.13 | \$ 0.13 | \$ 0.39 | \$ 0.39 |

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

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

| | September 30, 2010 (Unaudited) | September 30, 2009 (Unaudited) | December 31, 2009 (1) |
|--|--------------------------------------|--------------------------------------|--------------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 32,561 | \$ 30,442 | \$ 15,843 |
| Receivables, net | 155,252 | 149,733 | 96,364 |
| Product inventories, net | 306,609 | 318,177 | 355,528 |
| Prepaid expenses and other current assets | 6,915 | 6,622 | 12,901 |
| Deferred income taxes | 10,662 | 11,904 | 10,681 |
| Total current assets | 511,999 | 516,878 | 491,317 |
| Property and equipment, net | 31,328 | 32,158 | 31,432 |
| Goodwill | 178,087 | 170,291 | 176,923 |
| Other intangible assets, net | 13,353 | 12,058 | 13,917 |
| Equity interest investments | 978 | 978 | 1,006 |
| Other assets, net | 29,304 | 28,596 | 28,504 |
| Total assets | \$ 765,049 | \$ 760,959 | \$ 743,099 |
| Liabilities and stockholders' equity | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 127,995 | \$ 137,761 | \$ 178,391 |
| Accrued expenses and other current liabilities | 66,214 | 54,016 | 33,886 |
| Current portion of long-term debt and other long-term liabilities | 12,193 | 37,669 | 48,236 |
| Total current liabilities | 206,402 | 229,446 | 260,513 |
| Deferred income taxes | 22,178 | 19,391 | 21,920 |
| Long-term debt | 219,200 | 235,800 | 200,700 |
| Other long-term liabilities | 7,004 | 6,514 | 7,779 |
| Total liabilities | 454,784 | 491,151 | 490,912 |
| Stockholders' equity: | | | |
| Common stock, \$.001 par value; 100,000,000 shares authorized; 49,687,475, 48,941,324 and 48,991,729 shares issued and outstanding at September 30, 2010, September 30, 2009 and December 31, 2009, respectively | 50 | 49 | 49 |
| Additional paid-in capital | 214,683 | 200,492 | 202,784 |
| Retained earnings | 95,728 | 67,099 | 47,128 |
| | (196) | 2,168 | 2,226 |

| | | | |
|---|------------|------------|------------|
| Accumulated other comprehensive income (loss) | | | |
| Total stockholders' equity | 310,265 | 269,808 | 252,187 |
| Total liabilities and stockholders' equity | \$ 765,049 | \$ 760,959 | \$ 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)

| | Nine Months Ended September 30, 2010 | |
|--|--|-----------|
| | | 2009 |
| Operating activities | | |
| Net income | \$ 69,443 | \$ 32,808 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 6,732 | 6,764 |
| Amortization | 1,827 | 1,872 |
| Share-based compensation | 5,912 | 4,708 |
| Excess tax benefits from share-based compensation | (1,271) | (2,194) |
| Equity (earnings) losses in unconsolidated investments | (117) | 30,064 |
| Goodwill impairment | - | 310 |
| Other | (7,673) | (5,471) |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | |
| Receivables | (49,043) | (31,509) |
| Product inventories | 55,482 | 87,183 |
| Accounts payable | (55,586) | (35,927) |
| Other current assets and liabilities | 39,536 | (1,533) |
| Net cash provided by operating activities | 65,242 | 87,075 |
| Investing activities | | |
| Acquisition of businesses, net of cash acquired | (4,872) | (381) |
| Purchase of property and equipment, net of sale proceeds | (6,600) | (6,170) |
| Net cash used in investing activities | (11,472) | (6,551) |
| Financing activities | | |
| Proceeds from revolving line of credit | 370,639 | 339,037 |
| Payments on revolving line of credit | (354,668) | (368,237) |
| Proceeds from asset-backed financing | - | 57,000 |
| Payments on asset-backed financing | - | (77,792) |
| Payments on long-term debt and other long-term liabilities | (36,160) | (4,618) |
| Payments of deferred acquisition consideration | (500) | - |
| Payments of deferred financing costs | (145) | (305) |
| Excess tax benefits from share-based compensation | 1,271 | 2,194 |
| Proceeds from stock issued under share-based compensation plans | 4,717 | 3,926 |
| Payments of cash dividends | (19,308) | (18,945) |
| Purchases of treasury stock | (1,534) | (1,171) |
| Net cash used in financing activities | (35,688) | (68,911) |
| Effect of exchange rate changes on cash | (1,364) | 3,067 |
| Change in cash and cash equivalents | 16,718 | 14,680 |

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| | | |
|--|-----------|-----------|
| Cash and cash equivalents at beginning of period | 15,843 | 15,762 |
| Cash and cash equivalents at end of period | \$ 32,561 | \$ 30,442 |

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

POOL CORPORATION
Notes to Consolidated Financial Statements
(Unaudited)

Note 1 – Summary of Significant Accounting Policies

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

A description of our significant accounting policies is included in our 2009 Annual Report on Form 10-K/A. The Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and accompanying notes in our Annual Report. The results for the three and nine month periods ended September 30, 2010 are not necessarily indicative of the results to be expected for the twelve months ending December 31, 2010.

Equity Method Investments

Prior to January 2010, we held a 38% equity investment in Latham Acquisition Corporation (LAC), which we accounted for using the equity method of accounting. In the third quarter of 2009, we recorded a \$0.8 million equity net loss related to our share of LAC's loss from ongoing operations for July and August 2009. As of September 1, 2009, LAC performed an interim impairment test on their goodwill and other intangible assets and recorded a non-cash impairment charge in accordance with GAAP. Since our pro rata share of this impairment charge exceeded our equity investment balance, we also recognized a \$26.5 million equity loss in the third quarter of 2009 equal to our equity investment balance as of September 1, 2009.

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 have not recognized any impact related to LAC's 2010 results.

Allowance for Doubtful Accounts

As of September 30, 2010, the receivable balance in our greater than 60 days past due category declined by 400 basis points as a percentage of total receivables year over year. Along with reductions in our other past due receivables aging categories for the same period, our total current receivable balance increased by 580 basis points as a percentage of total receivables. We reduced our estimated allowance for doubtful accounts throughout 2010 as these accounts receivable aging trends improved, resulting in a \$3.4 million decrease in bad debt expense for the nine months ended September 30, 2010 compared to the same period in 2009. Based on these adjustments and the write-off of certain account balances deemed uncollectible, our allowance for doubtful accounts balance declined to \$7.3 million at September 30, 2010 from \$12.2 million at September 30, 2009.

Foreign Currency

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in Interest expense, net in the Consolidated Statement of Income (Loss) as realized. Interest expense, net for the third quarter of 2010 included \$1.3 million in net foreign currency

transaction gains.

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Note 2 – Earnings (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.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Net income (loss) | \$ 22,784 | \$ (9,322) | \$ 69,443 | \$ 32,808 |
| Weighted average common shares outstanding: | | | | |
| Basic | 49,615 | 48,799 | 49,442 | 48,543 |
| Effect of dilutive securities: | | | | |
| Stock options | 551 | — | 716 | 317 |
| Employee stock purchase plan | 2 | — | 2 | 3 |
| Diluted | 50,168 | 48,799 | 50,160 | 48,863 |
| Basic earnings (loss) per share | \$ 0.46 | \$ (0.19) | \$ 1.40 | \$ 0.68 |
| Diluted earnings (loss) per share | \$ 0.45 | \$ (0.19) | \$ 1.38 | \$ 0.67 |

The weighted average diluted shares outstanding for both the three and nine months ended September 30, 2010 exclude stock options to purchase 2,039,081 shares and 1,460,408 shares, respectively, because these options have exercise prices that were higher than the average market price of our common stock and including them in the calculation would have an anti-dilutive effect on earnings per share. In 2009, the weighted average diluted shares outstanding for the nine months ended September 30, 2009 excluded stock options to purchase 3,362,270 shares for the same reason.

Since we reported a net loss for the third quarter of 2009, there is no difference between the basic and diluted weighted average shares outstanding for this period. Potentially dilutive shares are excluded from the computation if their effect is anti-dilutive, meaning that the loss per share would decrease.

Note 3 – Comprehensive Income (Loss)

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Net income (loss) | \$ 22,784 | \$ (9,322) | \$ 69,443 | \$ 32,808 |
| Foreign currency translation adjustments | (1,283) | 1,653 | (2,921) | 3,067 |
| Unrealized gains (losses) on interest rate swaps (1) | 172 | (144) | 499 | 1,487 |
| Comprehensive income (loss) | \$ 21,673 | \$ (7,813) | \$ 67,021 | \$ 37,362 |

(1) Amounts are shown net of tax.

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

| | Foreign Currency Translation Adjustments | Unrealized Gains (Losses) on Interest Rate Swaps (1) | Total |
|-------------------------------|---|---|----------|
| Balance at December 31, 2009 | \$ 5,255 | \$ (3,029) | \$ 2,226 |
| Net change | (2,921) | 499 | (2,422) |
| Balance at September 30, 2010 | \$ 2,334 | \$ (2,530) | \$ (196) |

(1) Amounts are shown net of tax.

Note 4 – Acquisitions

In April 2010, we acquired Les Produits de Piscine Metrinox Inc. (Metrinox), a swimming pool products distributor with two sales centers in Quebec, Canada. The total consideration for our acquisition of Metrinox includes up to \$1.4 million of deferred and contingent consideration payable between October 2010 and March 2012. We have completed the initial acquisition accounting for Metrinox subject to adjustments in accordance with the terms of the purchase agreement during the measurement period. This acquisition did not have a material impact on our financial position or results of operations.

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 (the Term Loan) and our five-year revolving credit facility (the Revolver).

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 September 30, 2010 (in thousands):

| Balance Sheet Line Item | Unrealized Losses |
|--|----------------------|
| Accrued expenses and other current liabilities | \$ (4,167) |

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 11 under the RESULTS OF OPERATIONS section.

OVERVIEW

Financial Results

Our third quarter results solidify our belief that the recent industry downturn has largely subsided. With the second and third quarters representing close to 70% of our annual net sales, our sales growth for this period in 2010 not only drove the improvement in our year to date gross profit but also serves as a measure of the overall health of the industry. The ability to leverage our current infrastructure to support sales growth also contributed to our improved profitability for both the quarter and year to date periods. We believe the 2010 season was both transitional and successful based on our return to sales and earnings growth, continued improvements in working capital management and another season of strong cash flow generation.

Net sales for the quarter ended September 30, 2010 increased 6% compared to the third quarter of 2009. Base business sales were up 3% due to market share gains including sales for expanded product offerings, the benefit of favorable weather conditions, except on the West Coast, and higher discretionary purchases by consumers. Base business sales growth for the quarter included increases in many markets and most product categories on the swimming pool side of the business, although sales declined on the irrigation side of the business due to continued weakness in construction markets.

Gross profit for the third quarter of 2010 increased 6% over the comparable 2009 period. Gross profit as a percentage of net sales (gross margin) increased to 28.8% for the third quarter of 2010 compared to 28.7% for the third quarter of 2009.

Selling and administrative expenses (operating expenses) increased 3% in the third quarter due primarily to the impact from recent acquisitions. Base business operating expenses were essentially flat compared to the third quarter of 2009, with a \$2.9 million increase in incentive costs offset by decreases in bad debt expense, facility lease costs and other expenses.

Operating income increased 15% to \$37.0 million in the third quarter of 2010. Interest expense, net declined \$2.1 million compared to the third quarter of 2009 due to a 35% decrease in interest expense and a \$1.1 million increase in foreign currency transaction gains. The decrease in interest expense was driven by a \$49.6 million decline in average debt outstanding.

We no longer have an equity interest in Latham Acquisition Corporation (LAC) and have not recognized any impact related to LAC's 2010 results. In the third quarter of 2009, we recognized a total equity loss of \$27.3 million for LAC, which consisted of a \$26.5 million equity loss related to our pro rata share of LAC's non-cash goodwill and other intangible asset impairment charge and \$0.8 million for our share of LAC's loss from ongoing operations for July and August 2009.

Earnings per share was \$0.45 per diluted share on net income of \$22.8 million for the third quarter of 2010, compared to a loss of \$0.19 per diluted share on a net loss of \$9.3 million for the third quarter of 2009. Loss per share for the third quarter of 2009 reflected an impact of \$0.54 per diluted share related to our pro rata portion of LAC's impairment charge included in the reported equity loss.

Financial Position and Liquidity

Total net receivables increased 4% to \$155.3 million at September 30, 2010 from \$149.7 million at September 30, 2009, with a 7% increase attributed to sales from recent acquisitions and higher vendor incentive receivables partially offset by a decrease in net trade receivables from base business sales. While base business sales increased, the related net trade receivables balance declined due to significant improvements in customer collections, which is evidenced by a year over year decrease of 580 basis points in our total past due receivables balance as a percentage of total receivables. Our allowance for doubtful accounts balance was \$7.3 million at September 30, 2010, a decrease of \$4.9 million compared to September 30, 2009 and \$4.1 million compared to December 31, 2009. These decreases reflect both write-offs of certain fully reserved customer accounts and our reduction of the allowance in 2010 based on our improved receivables aging trends. Days sales outstanding (DSO) decreased between periods to 32.2 days at September 30, 2010 compared to 35.5 days at September 30, 2009.

Despite the increase in base business sales, approximately \$12.0 million of inventory from acquisitions and higher inventories for expanded product offerings in tile, pool finishes and replacement parts, our inventory levels decreased 4% to \$306.6 million as of September 30, 2010 from \$318.2 million as of September 30, 2009. Our inventory turns, as calculated on a trailing twelve month basis, increased to 3.2 times at September 30, 2010 from 3.0 times at September 30, 2009.

Total debt outstanding was \$231.2 million at September 30, 2010, down \$42.1 million compared to September 30, 2009.

Current Trends and Outlook

The adverse housing and economic trends over the past several years had a significant impact on our industry, driving close to an 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 general external market factors including consumer confidence, employment, consumer financing and economic growth remain at depressed levels, we believe our base business sales growth in the first nine months of 2010 indicates that the declines in pool construction and pool refurbishment activities have subsided in most markets.

Overall, we expect that our sales growth will be in the low to mid-single digit percentages for the fourth quarter of 2010. We believe the weakness in irrigation markets will continue to moderate slightly and we anticipate easier sales comparisons in the fourth quarter of 2010. Given the intensely competitive pricing environment, we expect our gross margins will remain pressured and that we could experience moderate erosion compared to gross margins in the fourth quarter of 2009. We expect base business expenses will be relatively flat and down as a percentage of sales compared to the same period in 2009. Based on our year to date results through the third quarter and these expectations for the seasonally slow fourth quarter, we remain comfortable with our current 2010 earnings guidance of \$1.10 to \$1.15 per diluted share. Our goal is for free cash flow to exceed net income for fiscal 2010, although cash provided by operations will remain comparatively lower than 2009 since we will not realize the same level of improvements from our ongoing working capital management initiatives.

Looking beyond 2010, we still believe there is potential for a significant sales recovery due to the build-up of deferred replacement and retrofit activity and our expectation for gradually normalized new pool and irrigation construction levels. While current economic trends indicate that consumer spending may rebound more slowly than we anticipated earlier in the year and that construction activities will likely remain near current depressed levels through 2011, 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.

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 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 September 30, 2010, we conducted operations through 289 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 Ended | | Nine Months Ended | |
|---|--------------------|--------|--------------------|--------|
| | September 30, 2010 | 2009 | September 30, 2010 | 2009 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 71.2 | 71.3 | 71.0 | 70.8 |
| Gross profit | 28.8 | 28.7 | 29.0 | 29.2 |
| Operating expenses | 20.6 | 21.2 | 20.4 | 20.8 |
| Operating income | 8.1 | 7.5 | 8.6 | 8.4 |
| Interest expense, net | 0.1 | 0.6 | 0.3 | 0.7 |
| Income before income taxes and equity earnings (losses) | 8.1% | 6.9% | 8.3% | 7.7% |

Note: Due to rounding, percentages may not add up to Operating income or Income before income taxes and equity earnings (losses).

Our discussion of consolidated operating results includes the operating results from acquisitions in 2010, 2009 and 2008. We have included the results of operations in our consolidated results since the respective acquisition dates.

Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 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) (In thousands) | Base Business | | Excluded | | Total | |
|-------------------------------|-------------------------------------|-----------|-------------------------------------|----------|-------------------------------------|-----------|
| | Three Months Ended September 30, | | Three Months Ended September 30, | | Three Months Ended September 30, | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Net sales | \$437,402 | \$426,329 | \$17,618 | \$ 3,725 | \$455,020 | \$430,054 |
| Gross profit | 126,452 | 122,503 | 4,417 | 891 | 130,869 | 123,394 |
| Gross margin | 28.9% | 28.7% | 25.1% | 23.9% | 28.8% | 28.7% |
| Operating expenses | 90,225 | 90,487 | 3,597 | 765 | 93,822 | 91,252 |
| Expenses as a % of net sales | 20.6% | 21.2% | 20.4% | 20.5% | 20.6% | 21.2% |
| Operating income | 36,227 | 32,016 | 820 | 126 | 37,047 | 32,142 |
| Operating margin | 8.3% | 7.5% | 4.7% | 3.4% | 8.1% | 7.5% |

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

| Acquired | Acquisition Date | Net Sales Centers Acquired | Period Excluded |
|--|------------------|----------------------------|---------------------|
| Les Produits de Piscine Metrinox Inc. (Metrinox) | April 2010 | 2 | July–September 2010 |
| General Pool & Spa Supply (GPS) (1) | October 2009 | 7 | July–September 2010 |

(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 September 30, 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 (1).

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 third quarter of 2010:

| | |
|--------------------|-----|
| June 30, 2010 | 290 |
| Consolidated(1) | |
| September 30, 2010 | 289 |

Net Sales

| (in millions) | Three Months Ended | | |
|---------------|--------------------|----------|------------|
| | September 30, | | |
| | 2010 | 2009 | Change |
| Net sales | \$ 455.0 | \$ 430.1 | \$ 24.9 6% |

Base business sales for the third quarter of 2010 were up approximately 3%, including an increase of 4% on the swimming pool side of the business due to the following (listed in order of estimated magnitude):

- favorable weather conditions across the Southeast, Midwest and Northeast compared to the third quarter of 2009, which drove increased sales of maintenance and impulse items;
- market share gains in a number of our market segments, including sales for expanded product offerings such as replacement parts and tile; and
- higher sales of discretionary products, reflecting improved consumer spending trends compared to 2009.

The overall increase in sales due to both base business sales growth and sales related to our recent acquisitions was partially offset by the following:

- sales declines in West Coast markets due to the combination of unfavorable weather conditions during the third quarter of 2010 and continued economic headwinds, especially in our California and Arizona markets;
- a 9% decline in base business sales for the irrigation side of our business due to continued weakness in irrigation construction markets; and
- an adverse impact due to price deflation on certain higher volume chemical products.

Gross Profit

| (in millions) | Three Months Ended | | Change | |
|---------------|--------------------|----------|--------|----|
| | September 30, | | | |
| | 2010 | 2009 | | |
| Gross profit | \$ 130.9 | \$ 123.4 | \$ 7.5 | 6% |
| Gross margin | 28.8% | 28.7% | | |

Gross margin increased 10 basis points to 28.8% compared to the third quarter of 2009, reflecting the following:

- higher sales growth rates for higher margin items, particularly Pool Corporation branded products and tile;
- improved pricing and purchasing discipline; and
- a benefit due to geographic sales mix, with the majority of our sales growth realized in regions with higher gross margins.

Negative pressures that partially offset these favorable impacts on gross margin included pricing pressures due to the intensely competitive market environment and lower gross margins realized by our recent acquisitions.

Operating Expenses

| (in millions) | Three Months Ended | | Change | |
|---|--------------------|---------|--------|----|
| | September 30, | | | |
| | 2010 | 2009 | | |
| Operating expenses | \$ 93.8 | \$ 91.3 | \$ 2.5 | 3% |
| Operating expenses as a % of net sales | 20.6 | 21.2% | | |

Total operating expenses increased 3% compared to the third quarter of 2009, primarily due to incremental expenses from our recent acquisitions as base business operating expenses were essentially flat compared to the same period in 2009. Included in base business expenses this quarter was a \$2.9 million increase in incentive costs and higher other variable expenses such as overtime, temporary labor and freight costs as a result of the increase in base business sales. However, these increases were fully offset by a \$1.1 million decline in bad debt expense, a \$0.9 million decrease in employee insurance costs due to fewer high dollar claims and lower facility lease costs and other expenses. Total operating expenses as a percentage of net sales decreased between periods.

Interest Expense, net

Interest expense, net decreased \$2.1 million between periods due to a \$1.0 million decrease in interest expense and a \$1.1 million increase in foreign currency transaction gains. Interest expense declined due to an 18% lower average outstanding debt balance compared to the third quarter of 2009 and a decrease in the weighted average effective

interest rate to 3.0% in the third quarter of 2010 from 3.6% in the same period in 2009.

Income Taxes

The increase in the provision for income taxes for the third quarter of 2010 is due to the increase in income before income taxes and equity earnings (losses). Our effective income tax rate was 37.91% for the three months ended September 30, 2010 and 39.30% for the three months ended September 30, 2009. The decrease in the effective rate between periods reflects the impact of the change in the estimated annual provision for income taxes due primarily to the expiration of the statute of limitations on certain state tax returns.

Net Income (Loss) and Earnings (Loss) Per Share

Net income was \$22.8 million in the third quarter of 2010 and earnings per share increased to \$0.45 per diluted share. This compares to a loss of \$0.19 per diluted share for the third quarter of 2009, which reflected a \$0.54 per diluted share impact related to our pro rata share of LAC's impairment charge included in the reported equity loss. Earnings per share for the third quarter of 2010 included an accretive impact of approximately \$0.01 per diluted share from our recent acquisitions.

Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 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) (In thousands) | Base Business | | Excluded | | Total | |
|---------------------------------|------------------------------------|-------------|------------------------------------|----------|------------------------------------|-------------|
| | Nine Months Ended September 30, | | Nine Months Ended September 30, | | Nine Months Ended September 30, | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Net sales | \$1,322,731 | \$1,296,951 | \$49,589 | \$11,811 | \$1,372,320 | \$1,308,762 |
| Gross profit | 384,986 | 379,719 | 12,709 | 2,936 | 397,695 | 382,655 |
| Gross margin | 29.1% | 29.3% | 25.6% | 24.9% | 29.0% | 29.2% |
| Operating expenses | 268,490 | 269,653 | 11,177 | 2,786 | 279,667 | 272,439 |
| Expenses as a % of net sales | 20.3% | 20.8% | 22.5% | 23.6% | 20.4% | 20.8% |
| Operating income | 116,496 | 110,066 | 1,532 | 150 | 118,028 | 110,216 |
| Operating margin | 8.8% | 8.5% | 3.1% | 1.3% | 8.6% | 8.4% |

For an explanation of how we calculate base business, please refer to the discussion of base business on page 11 under the heading "Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009".

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

| Acquired | Acquisition Date | Net Sales Centers Acquired | Periods Excluded |
|----------|------------------|----------------------------|------------------|
| | | | |

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| | | | |
|-----------------|-----------------|---|---------------------------|
| Metrinox | April 2010 | 2 | April–September 2010 |
| GPS | October 2009 | 7 | January–September 2010 |
| Propias | N o v e m b e r | 0 | January–February 2010 and |
| Plasticos, S.L. | 2008 | | January–February 2009 |

Net Sales

| (in millions) | Nine Months Ended September 30, | | Change | |
|---------------|------------------------------------|------------|---------|----|
| | 2010 | 2009 | | |
| Net sales | \$ 1,372.3 | \$ 1,308.8 | \$ 63.5 | 5% |

Net sales for the first nine months of 2010 increased 5% compared to the same period of 2009, including sales related to our recent acquisitions and a 2% increase in base business sales. Base business sales on the swimming pool side of the business increased 3%, with growth of 5% in the second quarter and 4% in the third quarter more than offsetting the 3% decline in base business sales during our seasonally slower first quarter. Our year over year comparative sales results improved as the first half of the 2010 season progressed based on the gradual improvement in external market trends and more favorable weather conditions after mid-March.

Favorable base business sales comparisons to the first nine months of 2009 reflect the same factors that contributed to the sales growth in the third quarter as discussed on page 11 under the subheading “Net Sales”.

These sales increases were partially offset by the following:

- approximately \$17.0 million in sales in the first half 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;
- an 11% sales decline on the irrigation side of the business due to the continued weakness in irrigation construction markets; and
- negative impacts on sales due to adverse weather conditions, including a slow start to the 2010 season in Florida and certain other sunbelt markets due to much colder than normal temperatures between January and mid-March and unfavorable weather along the West Coast in the second and third quarters of 2010.

Gross Profit

| (in millions) | Nine Months Ended September 30, | | Change | |
|---------------|------------------------------------|----------|---------|----|
| | 2010 | 2009 | | |
| Gross profit | \$ 397.7 | \$ 382.7 | \$ 15.0 | 4% |
| Gross margin | 29.0% | 29.2% | | |

Gross margin decreased 20 basis points between periods. There was a negative impact throughout the first nine months of 2010 from the ongoing competitive pricing environment and lower gross margins realized by our recent acquisitions, with some offsetting benefits due to favorable product mix and improved pricing and purchasing discipline. In the seasonally slow first quarter of 2010, gross margins declined 110 basis points due primarily to the impact of margin benefits realized in the first quarter of 2009 related to our pre-price increase inventory buys in the second half of 2008 (a comparative increase of 120 basis points compared to the first quarter in 2008). As this difficult gross margin comparison to 2009 eased during the second quarter of 2010, we realized only a 20 basis point decline in gross margin compared to the second quarter of 2009. Despite the negative pressures on gross margin discussed above, gross margin increased 10 basis points in the third quarter of 2010 compared to the same period in 2009 due to the favorable impacts discussed in more detail on page 12 under the subheading “Gross Profit”.

Operating Expenses

| (in millions) | Nine Months Ended September 30, | | Change | |
|---|------------------------------------|----------|--------|----|
| | 2010 | 2009 | | |
| Operating expenses | \$ 279.7 | \$ 272.4 | \$ 7.3 | 3% |
| Operating expenses as a % of net sales | 20.4 | 20.8% | | |

Total operating expenses increased 3% compared to the first nine months of 2009 due primarily to expenses related to our recent acquisitions. Base business operating expenses declined less than 1% overall, with a 3% decline in the first quarter, a 2% increase in the second quarter attributed to higher incentive costs and essentially flat expenses in the third quarter of 2010. While year to date base business operating expenses included a \$7.4 million increase in incentive costs and higher other variable expenses such as overtime, temporary labor and freight costs as a result of the increase in base business sales, offsetting expense reductions included \$3.4 million in bad debt expense, \$2.5 million in employee insurance costs, \$1.8 million in facility lease costs and the continued but moderating impact of our cost control initiatives. Total operating expenses as a percentage of net sales decreased 40 basis points between periods.

Interest Expense, net

Interest expense, net decreased 48% between periods due to the impact of much lower debt levels and a \$1.2 million increase in foreign currency transaction gains. The decrease in interest expense reflects a 24% decline in our average debt outstanding compared to the first nine months of 2009 and a decrease in the weighted average effective interest rate to 3.0% in the first nine months of 2010 from 3.3% in the same period in 2009.

Income Taxes

The increase in the provision for income taxes is due to the increase in income before income taxes and equity earnings (losses). Our effective income tax rate was 38.85% for the nine months ended September 30, 2010 and 39.30% for the nine months ended September 30, 2009. The decrease in the effective rate between periods reflects the impact of the change in the estimated annual provision for income taxes due primarily to the expiration of the statute of limitations on certain state tax returns.

Net Income and Earnings Per Share

Net income was \$69.4 million in the first nine months of 2010 and earnings per share increased to \$1.38 per diluted share. This compares to earnings of \$0.67 per diluted share for the first nine months of 2009, which reflected a \$0.54 per diluted share impact related to our pro rata share of LAC's impairment charge included in the reported equity loss. Earnings per share for the first nine months of 2010 included an accretive impact of approximately \$0.03 per diluted share from our recent acquisitions.

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, second and third quarters of 2010, the four quarters of 2009 and the fourth quarter 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) (in thousands) | QUARTERS | | | | | | | |
|---------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 2010 | | | | 2009 | | | |
| Statement of Income (Loss) Data | Third | Second | First | Fourth | Third | Second | First | Fourth |
| Net sales | \$455,020 | \$647,467 | \$269,833 | \$231,032 | \$430,054 | \$602,082 | \$276,626 | \$258,966 |
| Gross profit | 130,869 | 190,534 | 76,292 | 67,069 | 123,394 | 178,068 | 81,193 | 75,322 |
| Operating income (loss) | 37,047 | 88,869 | (7,888) | (21,776) | 32,142 | 81,720 | (3,646) | (15,328) |
| Net income (loss) | 22,784 | 52,770 | (6,111) | (13,606) | (9,322) | 48,366 | (6,236) | (14,795) |
| Balance Sheet Data | | | | | | | | |
| Total receivables, net | \$155,252 | \$238,638 | \$157,568 | \$96,364 | \$149,733 | \$233,288 | \$160,318 | \$115,584 |
| Product inventories, net | 306,609 | 331,537 | 382,380 | 355,528 | 318,177 | 325,198 | 397,863 | 405,914 |
| Accounts payable | 127,995 | 221,374 | 251,590 | 178,391 | 137,761 | 194,004 | 201,300 | 173,688 |
| Total debt | 231,200 | 266,131 | 278,150 | 248,700 | 273,300 | 334,015 | 381,221 | 327,792 |

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

Our third quarter 2010 sales benefitted from much more favorable weather conditions across the Southeast, Midwest and Northeast compared to the third quarter of 2009. However, this benefit was largely offset by the adverse impact from unseasonably cool weather along the West Coast, most notably in California, our largest market.

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 or 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;
- repurchase of common stock at Board-defined parameters; and
- repayment of debt.

Sources and Uses of Cash

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

| | Nine Months Ended September 30, | |
|----------------------|------------------------------------|-----------|
| | 2010 | 2009 |
| Operating activities | \$ 65,242 | \$ 87,075 |
| Investing activities | (11,472) | (6,551) |
| Financing activities | (35,688) | (68,911) |

Our continued focus on working capital management helped generate cash provided by operations of \$65.2 million in the first nine months of 2010. This is down from our record level of cash provided by operations of \$87.1 million in the first nine months of 2009, which benefitted from an 8% reduction in inventory levels as of September 30, 2009 compared to September 30, 2008. The increase in cash used in investing activities is due primarily to the initial cash consideration paid for our April 2010 acquisition of Metrinnox. The change between periods in cash flows used in financing activities reflects lower net debt payments for the nine months ended September 30, 2010, which correlates with the comparative decline in cash provided by operating activities.

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 September 30, 2010, there was \$119.2 million outstanding and \$118.9 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 nine months ended September 30, 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 September 30, 2010, there was \$12.0 million outstanding under the Term Loan. This balance is classified as current since the final principal payment of \$12.0 million is due on December 20, 2010. 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 nine months ended September 30, 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 current notional amount of \$50.0 million. The weighted average effective interest rate on the Notes was approximately 3.7% for the nine months ended September 30, 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 September 30, 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 September 30, 2010, our average total leverage ratio equaled 2.14 (compared to 2.36 as of June 30, 2010) and the TTM average total debt amount used in this calculation was \$253.3 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 September 30, 2010, our fixed charge ratio equaled 2.70 (compared to 2.56 as of June 30, 2010) and TTM Rental Expense was \$56.1 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 September 30, 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 October 22, 2010, \$53.0 million of the current Board authorized amount under our share repurchase program remained available. 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 September 30, 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 September 30, 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 1. Legal Proceedings

The Federal Trade Commission (FTC) notified us that it is conducting a non-public investigation to determine whether we have engaged in conduct in violation of Section 5 of the Federal Trade Commission Act. We are cooperating with the FTC in its investigation and have been informed by the FTC that the existence of an investigation does not suggest that it has made a determination that a violation by us has occurred or is occurring. While we are not able to predict with certainty the timing, outcome or consequence of this investigation, we believe that we are in compliance with all federal and state laws governing competition.

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 refurbishment 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 consumer 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 20 new sales centers (net of subsequent closings and consolidations of new sales centers) and have completed 10 acquisitions. These acquisitions have added 76 sales centers (net of sales center closings and consolidations within one year of acquisition) to our distribution networks. Between 2007 and the third quarter of 2010, we also closed or consolidated 15 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 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 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

As evidenced by the table below, we did not repurchase any shares of our common stock in the third 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) |
|----------------------|-------------------------------------|------------------------------|--|--|
| July 1-31, 2010 | — | \$ — | — | \$ 52,987,067 |
| August 1-31, 2010 | — | \$ — | — | \$ 52,987,067 |
| September 1-30, 2010 | — | \$ — | — | \$ 52,987,067 |
| Total | — | \$ — | — | |

- (1) May consist 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 October 22, 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 27.

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on October 29, 2010.

POOL CORPORATION

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

Index to Exhibits

| No. | Description | Filed or Furnished with this Form | Incorporated by Reference | | |
|-------------|--|--|---------------------------|-----------|------------|
| | | | 10-Q | Form | File No. |
| 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 |
| <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. | ü | | | |
| <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. | ü | | | |
| <u>32.1</u> | Certification by Manuel J. Perez de la Mesa and Mark W. Joslin pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | ü | | | |
| 101.INS + | XBRL Instance Document | ü | | | |
| 101.SCH+ | XBRL Taxonomy Extension Schema Document | ü | | | |
| 101.CAL+ | XBRL Taxonomy Extension Calculation Linkbase Document | ü | | | |
| 101.LAB+ | XBRL Taxonomy Extension Label Linkbase Document | ü | | | |
| 101.PRE + | XBRL Taxonomy Extension Presentation Linkbase Document | ü | | | |

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

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1. Consolidated Statements of Income (Loss) for the three and nine months ended September 30, 2010 and September 30, 2009;
2. Consolidated Balance Sheets at September 30, 2010, September 30, 2009 and December 31, 2009;
3. Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and September 30, 2009; and
4. Notes to Consolidated Financial Statements.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q is furnished and shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

