

POOL CORP
Form 10-K
March 02, 2009

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

FORM 10-K

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

For the fiscal year ended December 31, 2008

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)

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, par value \$0.001 per share | NASDAQ Global Select Market |

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES NO

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer
filer

Accelerated

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

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant based on the closing sales price of the Registrant's common stock as of June 30, 2008 was \$819,774,338.

As of February 20, 2009, the Registrant had 48,281,726 shares of common stock outstanding.

Documents Incorporated by Reference

Portions of the Registrant's Proxy Statement to be mailed to stockholders on or about March 27, 2009 for the Annual Meeting to be held on May 5, 2009, are incorporated by reference in Part III of this Form 10-K.

POOL CORPORATION

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PART I.

Item 1. Business

General

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

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

As of December 31, 2008 we operated 288 sales centers in North America and Europe.

Our Industry

We believe that the swimming pool industry is relatively young, with room for continued growth from increased penetration of new pools. Of the approximately 70 million homes in the United States that have the economic capacity and the yard space to have a swimming pool, approximately 12% own a pool. Higher rates of new home construction from 1996 to 2005 have added to the market expansion opportunity for pool ownership, particularly in larger pool markets.

We believe the long-term prospects of our industry are positively impacted by favorable demographic and socioeconomic trends. This includes the expected continued long-term growth in housing units in warmer markets due to the population migration towards the south and the need to maintain the growing installed base of pools. The industry has also been positively impacted by the trend for increased homeowner spending on outdoor living spaces for relaxation and entertainment. Additionally, consumers frequently bundle the purchase of a pool with other products as part of a complete backyard makeover. New irrigation systems and landscaping are often key components to completing a swimming pool installation or remodel. The irrigation and landscape market has many characteristics in common with the pool industry, and we believe that it benefits from the same favorable demographic and socioeconomic trends and will realize long-term growth rates similar to the pool industry.

The majority of consumer spending in our industry is derived from the non-discretionary maintenance of existing swimming pools, including the maintenance and repair of the equipment for those pools. We believe that the recurring nature of the maintenance and repair market has helped maintain a relatively consistent rate of industry growth historically, and has helped cushion the negative impact on revenues in periods when unfavorable economic conditions and softness in the housing market adversely impact pool construction activities. The table below reflects growth in the domestic installed base of in-ground and above-ground swimming pools over the past 10 years (based on Company estimates and information from 2007 P.K. Data, Inc. reports):

New swimming pool construction and irrigation starts comprise the bulk of the remaining consumer spending in our industry. The demand for new pools is driven by the perceived benefits of pool ownership including relaxation, entertainment, family activity, exercise and convenience. The industry competes for new pool sales against other discretionary consumer purchases such as kitchen and bathroom remodeling, boats, motorcycles, recreational vehicles and vacations.

General economic conditions (as commonly measured by Gross Domestic Product or GDP), the availability of consumer credit and certain trends in the housing market affect our industry, particularly new pool and irrigation system starts. Positive GDP trends may have a favorable impact on industry starts, while negative trends may be unfavorable for industry starts. We believe there is a direct correlation between industry starts and the rate of housing turnover and home appreciation over time, with higher rates of home turnover and appreciation having a positive impact on starts over time. We also 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 swimming pools and irrigation systems.

In 2008, the continuing adverse economic trends that carried over and intensified from 2007 negatively impacted our industry and our performance. These trends were more severe in some of the largest pool markets including California, Florida and Arizona. Specific issues included a slowdown in the domestic housing market, with lower housing turnover, a sharp drop in new home construction, home value deflation in many markets and a significant tightening of consumer and commercial credit. Our expectation is that these trends will continue in 2009, but over the long-term the industry will return to an annual growth rate of approximately 2% to 6% when the overall economy rebounds and the real estate and credit markets revert to normal.

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

The industry is also affected by other factors including, but not limited to, consumer attitudes toward pool and landscape products for environmental or safety reasons.

Business Strategy and Growth

Our mission is to provide exceptional value to our customers and suppliers, in order to provide exceptional return to our shareholders while providing exceptional opportunities to our employees. Our three core strategies are to promote the growth of our industry, to promote the growth of our customers' businesses and to continuously strive to operate more effectively.

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

We promote the growth of our customers' businesses through comprehensive support programs that offer promotional tools and marketing support to help generate increased sales for our customers. Our uniquely tailored programs

include such features as customer lead generation, personalized websites, brochures, marketing campaigns and business development training. As a customer service, we also provide certain retail store customers assistance with everything from site selection to store layout and design to business management system implementation. These benefits and other exclusive services are offered through our retail brand licensing program called The Backyard Place, which is one of our key growth initiatives. In return for these services, customers make commitments to meet minimum purchase levels, stock a minimum of nine specific product categories and operate within The Backyard Place guidelines (including weekend hour requirements). Since we launched The Backyard Place program in 2006, we have signed agreements with more than 100 retail store customers and have realized over a 20% growth in our sales to these customers.

In addition to our efforts aimed at industry and customer growth, we strive to operate more effectively by continuously focusing on improvements in our operations such as product sourcing, procurement and logistics initiatives, adoption of enhanced business practices and improved working capital management. We have increased our product breadth (as described in the “Customers and Products” section below) and expanded our sales center networks through acquisitions (which have been an important source of sales growth), new sales center openings and expansions of existing sales centers. Since 2004, we have opened 31 new sales centers (net of subsequent closings and consolidations of new sales centers) and successfully completed 9 acquisitions consisting of 69 sales centers (net of sales center closings and consolidations within one year of acquisition). Given the current challenging external environment, we opened only one new sales center location in 2008 and do not expect to open any additional sales centers in 2009. However, we plan to take advantage of opportunities to further expand our domestic irrigation and international swimming pool distribution networks via acquisitions and new openings. We also plan to selectively expand our domestic swimming pool distribution networks and continue to grow our complementary product offerings.

Based upon industry data, we believe the industry grew at a 2% to 6% annual rate for the period between 2000 and 2005 but declined between 2006 and 2008. Historically, our sales growth has exceeded the industry’s growth rates and allowed us to increase market share. We expect our sales growth to be higher than the industry average due to increases in market share and expansion of our product offerings.

We estimate that pricing inflation has averaged 1-3% annually in our industry over the past 10 years. However, we anticipate mid to high single digit inflationary increases in product costs in 2009. We intend to pass these price increases through the supply chain and we expect a favorable impact to gross margin in 2009 based on our volume of inventory purchases ahead of vendor price increases in the second half of 2008.

For additional discussion of our recent acquisitions, see Note 2 of “Notes to Consolidated Financial Statements,” included in Item 8 of this Form 10-K. We intend to pursue additional strategic acquisitions, which will allow us to further penetrate existing markets and expand into new geographic markets and product categories.

Customers and Products

We serve roughly 70,000 customers, none of which account for more than 1% of our sales. We primarily serve five types of customers:

- swimming pool remodelers and builders;
- retail swimming pool stores;
- swimming pool repair and service businesses;
- landscape construction and maintenance contractors; and
- golf courses.

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

We conduct our operations through 288 sales centers in North America and Europe. Our primary markets, which have the highest concentration of swimming pools, are California, Florida, Texas and Arizona, representing approximately 55% of our net sales in 2008. We use a combination of local and international sales and marketing personnel to promote the growth of our business and develop and strengthen our customers’ businesses. Our sales and marketing personnel focus on developing customer programs and promotional activities, creating and enhancing sales management tools and providing product and market expertise. Our local sales personnel work from the sales centers

and are charged with understanding and meeting our customers' specific needs.

We offer our customers more than 100,000 national brand and Pool Corporation private label products. We believe that our selection of pool equipment, supplies, chemicals, replacement parts, irrigation and landscape products and complementary products is the most comprehensive in the industry. The products we sell can be categorized as follows:

- maintenance products such as chemicals, supplies and pool accessories;
- repair and replacement parts for cleaners, filters, heaters, pumps and lights;
- packaged pool kits including walls, liners, braces and coping for in-ground and above-ground pools;
- pool equipment and components for new pool construction and the remodeling of existing pools;
- irrigation and landscape products, including professional lawn care equipment; and
- complementary products, which consists of a number of product categories and includes:
 - building materials used for pool installations and remodeling, such as concrete, plumbing and electrical components and pool surface and decking materials; and
 - other discretionary recreational and related outdoor lifestyle products that enhance consumers' use and enjoyment of outdoor living spaces, such as pool toys and games, spas and grills.

We track and monitor the majority of our sales by various product lines and product categories, primarily for consideration in various incentive plan programs and to provide support for sales and marketing efforts. We currently have over 300 product lines and over 40 product categories. Based on our 2008 product classifications, sales for our pool and spa chemicals product category as a percentage of total net sales was 14% in 2008, 12% in 2007 and 11% in 2006. This growth has been due to both increases in our market share and a shift in product mix resulting from the decline in construction related products. No other product categories accounted for 10% or more of total net sales in any of the last three fiscal years.

Our maintenance, repair and replacement products are categorized into maintenance and minor repair (non-discretionary) and major repair and refurbishment (partially discretionary) product groupings. Since maintenance and repair products are primarily non-discretionary in nature, these items must be purchased by end users to maintain existing swimming pools and landscaped areas. In 2008, approximately 60% of our sales and gross profits were derived from the sale of maintenance and repair products used to maintain and repair these existing features and approximately 40% were derived from the replacement, construction and installation (equipment, materials, plumbing, electrical, etc.) of pools and landscaping. This reflects a shift toward more sales of maintenance and repair products due to the significant declines in new pool construction over the past three years. Historically, just over 50% of our total sales and gross profits were related to maintenance and repair products.

Including sales related to our March 2008 acquisition of National Pool Tile Group, Inc. (NPT), our complementary product sales accounted for approximately 11% of our total net sales in 2008 at comparable margins to our traditional product offerings. While complementary product sales excluding NPT decreased 15% in 2008 due primarily to the downturn in new pool and irrigation construction, complementary product sales have been an important factor in our base business sales growth and increased from approximately \$3.0 million in 1999 to over \$156.0 million in 2008. With our acquisition of NPT in March 2008, our focus in 2009 will be expanding the number of sales center locations that offer NPT's pool tile and composite pool finish products.

We continue to identify other product categories that could become part of our complementary product offerings in the future. We typically introduce two to three categories each year in certain markets. We then evaluate the performance of these test categories and focus on those which we believe exhibit long-term growth potential. We intend to continue to expand our complementary products initiative by increasing the number of locations which offer complementary products, increasing the number of complementary products offered at certain locations and continuing a modest broadening of the product offerings on a company-wide basis.

In 2009, we will change how we track complementary product sales. Some landscape products including power lawn equipment will now be tracked as complementary products, while other products previously captured as complementary that are part of the cost of building or remodeling a pool will now be tracked as pool product sales, including products such as plaster, cement, tile, coping, etc. As such, we will not report complementary product sales amounts in the future that are comparable with the amounts discussed above.

Operating Strategy

We operate three distribution networks: the SCP Distributors (SCP) network, the Superior Pool Products (Superior) network and the Horizon network. The SCP network consists of 167 sales centers, including 12 sales centers in Europe, the Superior network consists of 60 sales centers and the Horizon network consists of 61 sales centers.

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

1. To offer our customers a choice of different distributors, featuring distinctive product selections and service personnel; and
2. To increase the level of customer service and operational efficiency provided by the sales centers in each network by promoting healthy competition between the two networks.

We evaluate our sales centers based upon their performance relative to predetermined standards that include both financial and operational measures. Our corporate support groups provide our field operations with various services including customer and vendor related programs, information systems support and expert resources to help them achieve their goals. We believe our incentive programs and feedback tools, along with the competitive nature of our internal networks, stimulate and enhance employee performance.

Distribution

Our sales centers are located near customer concentrations, typically in industrial, commercial or mixed-use zones. Customers may pick up products at any sales center location, or products may be delivered via our trucks or third party carriers.

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

In addition, we operate seven centralized shipping locations and six stand-alone construction materials centers that redistribute products we purchase in bulk quantities to our sales centers or directly to customers.

Purchasing and Suppliers

We enjoy good relationships with our suppliers, who generally offer competitive pricing, return policies and promotional allowances. It is customary in our industry for manufacturers to seasonally offer extended payment terms to qualifying purchasers such as POOL. These terms are typically available to us for pre-season or early season purchases.

We initiated a preferred vendor program in 1999 which encourages our buyers to purchase products from a smaller number of vendors. We work closely with these vendors to develop programs and services to better meet the needs of our customers and concentrate our purchasing activities. These practices, together with a more comprehensive service offering, have resulted in improved margins at the sales center level.

We regularly evaluate supplier relationships and consider alternate sourcing to assure competitive cost, service and quality standards. Our largest suppliers include Pentair Corporation, Hayward Pool Products, Inc. and Zodiac Pool Systems, Inc., which accounted for approximately 15%, 10% and 9%, respectively, of the cost of products we sold in

2008.

Competition

Based on industry knowledge and available data, management believes we are the largest wholesale distributor of swimming pool and related backyard products and the only truly national wholesale distributor focused on the swimming pool industry in the United States. We are also one of the top three distributors of landscape and irrigation products in the United States, and we compete against one national wholesale distributor of these products. We face intense competition from many regional and local distributors in our markets and to a lesser extent, mass-market retailers and large pool supply retailers with their own internal distribution networks.

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Some geographic markets we serve, particularly our four largest, higher density markets in California, Florida, Texas and Arizona, are more competitive than others. Barriers to entry in our industry are relatively low. We compete with other distributors for rights to distribute brand-name products. If we lose or are unable to obtain these rights, we might be materially and adversely affected. We believe that the size of our operations allows us to compete favorably for such distribution rights.

We believe that the principal competitive factors in swimming pool and landscape supply distribution are:

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

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

Seasonality and Weather

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

Environmental, Health and Safety Regulations

Our business is subject to regulation under local fire codes and international, federal, state and local environmental and health and safety requirements, including regulation by the Environmental Protection Agency, the Consumer Product Safety Commission, the Department of Transportation, the Occupational Safety and Health Administration, the National Fire Protection Agency and the International Maritime Organization. Most of these requirements govern the packaging, labeling, handling, transportation, storage and sale of chemicals and fertilizers. We store certain types of chemicals and/or fertilizers at each of our sales centers and the storage of these items is strictly regulated by local fire codes. In addition, we sell 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.

Employees

We employed approximately 3,400 people at December 31, 2008. Given the seasonal nature of our business, our peak employment period is the summer, when we add approximately 500 more employees to our work force to meet seasonal demand.

Intellectual Property

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

Geographic Areas

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

| | Year Ended December 31, | | |
|---------------|-------------------------|-------------|-------------|
| | 2008 | 2007 | 2006 |
| United States | \$1,626,869 | \$1,774,771 | \$1,779,085 |
| International | 156,814 | 153,596 | 130,677 |
| | \$1,783,683 | \$1,928,367 | \$1,909,762 |

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

| | December 31, | | |
|---------------|--------------|----------|----------|
| | 2008 | 2007 | 2006 |
| United States | \$28,931 | \$30,505 | \$29,825 |
| International | 4,117 | 3,718 | 3,808 |
| | \$33,048 | \$34,223 | \$33,633 |

Available Information

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

Additionally, we have adopted a Code of Business Conduct and Ethics, applicable to all employees, officers and directors, which is available free of charge on our website.

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 more than 80% 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 in 2007 and 2008. 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. For a discussion regarding seasonality and weather, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Seasonality and Quarterly Fluctuations," of this Form 10-K.

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

As a distribution company, maintaining favorable relationships with our suppliers is critical to 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 15%, 10% and 9%, respectively, of the costs of products we sold in 2008. 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 55% of our net sales in 2008, 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.

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. During the past five fiscal years, we have opened 31 new sales centers (net of subsequent closings and consolidations of new sales centers) and have completed 9 acquisitions. These acquisitions have added 69 sales centers, net of sales center closings and consolidations within one year of acquisition, and three centralized shipping locations to our distribution networks. In 2007 and 2008, we also closed 6 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.

The growth of our business depends on effective marketing programs.

The growth of our business depends on the expansion of the installed pool base. Thus, an important part of our strategy is to promote the growth of the pool industry through our extensive advertising and promotional programs that attempt to raise consumer awareness regarding the benefits and affordability of pool ownership, the ease of pool maintenance and the many ways in which a pool may be enjoyed beyond swimming. These programs include media advertising, website development such as www.swimmingpool.comTM and public relations campaigns. We believe these programs benefit the entire supply chain from our suppliers to our customers.

We also promote the growth of our customers' businesses through comprehensive support programs that offer promotional tools and marketing support to help generate increased sales for our customers. Our programs include such features as personalized websites, brochures, marketing campaigns and business development training. We also provide certain retail store customers with assistance in site selection, store layout and design and business management system implementation. Our inability to sufficiently develop effective advertising, marketing and promotional programs to succeed in a weakened economic environment and an increasingly competitive marketplace, in which we (and our entire supply chain) also compete with other luxury product alternatives, could have a material adverse effect on our business.

Our business is highly seasonal.

In 2008, 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 private label 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.

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

Discretionary spending on leisure product offerings such as ours is generally adversely affected during times of economic or political uncertainty. The potential for terrorist attacks, the national and international responses to terrorist attacks, and other acts of war or hostility could create these types of uncertainties and negatively impact our business for the short or long-term in ways that cannot presently be predicted.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease the POOL corporate offices, which consist of approximately 50,000 square feet of office space in Covington, Louisiana, from an entity in which we have a 50% ownership interest. We own three sales center facilities in Florida and one in Texas. We lease all of our other properties and the majority of our leases have three to seven year terms. As of December 31, 2008, we had seven leases that expire between 2018 and 2027. Most of our leases contain renewal options, some of which involve rent increases. In addition to minimum rental payments, which are set at competitive rates, certain leases require reimbursement for taxes, maintenance and insurance.

Our sales centers range in size from approximately 2,000 square feet to 100,000 square feet and generally consist of warehouse, counter, display and office space. Our centralized shipping locations (CSLs) and construction materials centers range in size from 16,000 square feet to 132,000 square feet.

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

The table below summarizes the changes in our sales centers during the year ended December 31, 2008:

| Network | 12/31/07 | New Locations | Consolidated & Closed Locations (1) | Acquired Locations (2) | Converted Locations (3) | 12/31/08 |
|-------------------|----------|------------------|---|------------------------------|-------------------------------|----------|
| SCP | 137 | - | - | 8 | 1 | 146 |
| SPP | 62 | - | (2) | 1 | (1) | 60 |
| Horizon | 62 | - | (1) | - | - | 61 |
| Total Domestic | 261 | - | (3) | 9 | - | 267 |
| SCP International | 20 | 1 | (1) | 1 (4) | - | 21 |
| Total | 281 | 1 | (4) | 10 | - | 288 |

- (1) Consolidated sales centers are those locations where we expect to transfer the majority of the existing business to our nearby sales center locations. During 2008, we consolidated two sales centers and closed two sales centers.
- (2) We added 15 sales centers through our acquisition of National Pool Tile Group, Inc. (NPT) in March 2008. We consolidated six of these locations with existing sales centers, including four in March 2008 and two in the

second quarter of 2008. We plan to consolidate one additional NPT sales center with an existing SPP sales center in 2009. The remaining eight NPT sales centers are grouped as part of our SCP distribution network.

- (3) In 2008, we converted one existing sales center in California from our SPP network to our SCP network.
- (4) We made two international acquisitions during 2008. Our acquisition of Canswim Pools in March 2008 added one sales center in Ontario, Canada. We also acquired Proplas Plasticos, S.L. in November 2008 and consolidated this business with our existing sales center operations in Madrid, Spain.

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The table below identifies the number of sales centers in each state or country by distribution network as of December 31, 2008:

| Location | SCP | Superior | Horizon | Total |
|----------------------------|------------|-----------|-----------|------------|
| United States | | | | |
| California | 24 | 16 | 20 | 60 |
| Florida | 30 | 8 | - | 38 |
| Texas | 16 | 4 | 13 | 33 |
| Arizona | 6 | 4 | 10 | 20 |
| Georgia | 7 | 2 | 1 | 10 |
| Tennessee | 4 | 3 | - | 7 |
| Washington | 1 | - | 6 | 7 |
| Alabama | 4 | 2 | - | 6 |
| Nevada | 2 | 1 | 3 | 6 |
| New York | 6 | - | - | 6 |
| Louisiana | 5 | - | - | 5 |
| New Jersey | 3 | 2 | - | 5 |
| Ohio | 2 | 3 | - | 5 |
| Pennsylvania | 4 | 1 | - | 5 |
| Colorado | 1 | 1 | 2 | 4 |
| Illinois | 3 | 1 | - | 4 |
| Indiana | 2 | 2 | - | 4 |
| Missouri | 3 | 1 | - | 4 |
| North Carolina | 3 | 1 | - | 4 |
| Michigan | 2 | 1 | - | 3 |
| Oklahoma | 2 | 1 | - | 3 |
| Oregon | - | - | 3 | 3 |
| South Carolina | 2 | 1 | - | 3 |
| Virginia | 2 | 1 | - | 3 |
| Arkansas | 2 | - | - | 2 |
| Idaho | - | - | 2 | 2 |
| Kansas | 1 | 1 | - | 2 |
| Massachusetts | 2 | - | - | 2 |
| Minnesota | 1 | 1 | - | 2 |
| Connecticut | 1 | - | - | 1 |
| Iowa | 1 | - | - | 1 |
| Kentucky | - | 1 | - | 1 |
| Maryland | 1 | - | - | 1 |
| Mississippi | 1 | - | - | 1 |
| Nebraska | 1 | - | - | 1 |
| New Mexico | 1 | - | - | 1 |
| Utah | - | - | 1 | 1 |
| Wisconsin | - | 1 | - | 1 |
| Total United States | 146 | 60 | 61 | 267 |
| International | | | | |
| Canada | 8 | - | - | 8 |

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| | | | | |
|---------------------|-----|----|----|-----|
| France | 5 | - | - | 5 |
| Portugal | 3 | - | - | 3 |
| United Kingdom | 2 | - | - | 2 |
| Italy | 1 | - | - | 1 |
| Spain | 1 | - | - | 1 |
| Mexico | 1 | - | - | 1 |
| Total International | 21 | - | - | 21 |
| Total | 167 | 60 | 61 | 288 |

Item 3. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of our stockholders during the quarter ended December 31, 2008.

PART II.

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

Our common stock is traded on the NASDAQ Global Select Market under the symbol “POOL”. On February 25, 2009, there were approximately 13,172 beneficial holders of our common stock. The table below sets forth the high and low sales prices of our common stock as well as dividends declared for each quarter during the last two fiscal years.

| | High | Low | Dividends Declared |
|-------------------|---------|---------|-----------------------|
| Fiscal 2008 | | | |
| First Quarter | \$24.64 | \$17.99 | \$ 0.12 |
| Second Quarter | 22.43 | 17.76 | 0.13 |
| Third Quarter | 25.87 | 16.65 | 0.13 |
| Fourth Quarter | 23.39 | 13.36 | 0.13 |
| Fiscal 2007 | | | |
| First Quarter | \$40.73 | \$33.77 | \$ 0.105 |
| Second Quarter | 42.62 | 34.85 | 0.120 |
| Third Quarter | 39.09 | 24.08 | 0.120 |
| Fourth Quarter | 28.24 | 19.70 | 0.120 |

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

Stock Performance Graph

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

The graph below compares the total stockholder return on our common stock for the last five fiscal years with the total return on the NASDAQ US Index and the S&P MidCap 400 Index for the same period, in each case assuming the

investment of \$100 on December 31, 2003 and the reinvestment of all dividends. We believe the S&P MidCap 400 Index includes companies with capitalization comparable to ours. Additionally, we chose the S&P MidCap 400 Index for comparison, as opposed to an industry index, because we do not believe that we can reasonably identify a peer group or a published industry or line-of-business index that contains companies in a similar line of business.

| Company / Index | Base Period | INDEXED RETURNS | | | | |
|-------------------------|----------------|-----------------|----------|----------|----------|----------|
| | | Years Ending | | | | |
| | 12/31/03 | 12/31/04 | 12/31/05 | 12/31/06 | 12/31/07 | 12/31/08 |
| Pool Corporation | 100 | 147.46 | 173.66 | 184.56 | 94.86 | 88.18 |
| S&P MidCap 400 Index | 100 | 116.48 | 131.11 | 144.64 | 156.18 | 99.59 |
| NASDAQ US Index | 100 | 108.41 | 110.79 | 122.16 | 134.29 | 79.25 |

Purchases of Equity Securities

The table below summarizes the repurchases of our common stock in the fourth quarter of 2008.

| 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 that may yet be purchased under the plan(3) |
|------------------------|---|---------------------------------------|--|---|
| October 1-31, 2008 | - | \$ - | - | \$ 52,987,067 |
| November 1-30, 2008 | 165,764 | \$ 14.96 | - | \$ 52,987,067 |
| December 1-31, 2008 | 110,981 | \$ 17.97 | - | \$ 52,987,067 |
| Total | 276,745 | \$ 16.17 | - | |

- (1) Consists of shares of our common stock surrendered to us by employees in order to satisfy minimum tax withholding obligations in connection with certain exercises of employee stock options 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 a total of \$100.0 million from the amounts remaining at each of those dates.
- (3) In 2008, we purchased a total of approximately \$2.0 million, or 88,260 shares, at an average price of \$22.45 per share. As of February 20, 2009, \$53.0 million of the authorized amount remained available.

Item 6. Selected Financial Data

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

| | Year Ended December 31, (1) | | | | |
|--|-----------------------------|--------------|--------------|--------------|--------------|
| (in thousands, except per share data) | 2008 | 2007 | 2006 | 2005(2) | 2004(2) |
| Statement of Income Data | | | | | |
| Net sales | \$ 1,783,683 | \$ 1,928,367 | \$ 1,909,762 | \$ 1,552,659 | \$ 1,310,853 |
| Net income | 56,956 | 69,394 | 95,024 | 80,455 | 63,406 |
| Earnings per share: | | | | | |
| Basic | \$ 1.19 | \$ 1.42 | \$ 1.83 | \$ 1.53 | \$ 1.20 |
| Diluted | \$ 1.18 | \$ 1.37 | \$ 1.74 | \$ 1.45 | \$ 1.13 |
| Cash dividends declared per common share | | | | | |
| | \$ 0.51 | \$ 0.465 | \$ 0.405 | \$ 0.34 | \$ 0.20 |
| Balance Sheet Data(3) | | | | | |
| W o r k i n g capital(4) | | | | | |
| | \$ 294,552 | \$ 250,849 | \$ 227,631 | \$ 193,525 | \$ 128,189 |
| Total assets | 830,906 | 814,854 | 774,562 | 740,850 | 488,075 |
| Total long-term debt, including current portion | | | | | |
| | 307,000 | 282,525 | 191,157 | 129,100 | 50,420 |
| Stockholders' equity(5) | | | | | |
| | 241,734 | 208,791 | 277,684 | 281,724 | 227,544 |
| Other | | | | | |
| Base business sales change(6) | | | | | |
| | (9)% | (1)% | 10% | 14% | 10% |
| Number of sales centers | | | | | |
| | 288 | 281 | 274 | 246 | 201 |

(1) During the years 2004 to 2008, we successfully completed 9 acquisitions consisting of 69 sales centers. For information about our recent acquisitions, see Note 2 of "Notes to Consolidated Financial Statements," included in Item 8 of this Form 10-K.

(2) As adjusted to reflect the impact of share-based compensation expense related to the adoption of Statement of Financial Accounting Standards (SFAS) 123(R), Share-Based Payment, using the modified retrospective transition method.

(3) The 2005 balance sheet data has been adjusted to correct the classification of our deferred tax balances.

- (4) The approximate 51% increase in working capital from 2004 to 2005 is due primarily to a greater amount of early buy inventory purchases that we made and received during the fourth quarter of 2005 and the Horizon acquisition. This increase was partially offset by the deferral of our third and fourth quarter 2005 estimated federal income tax payments.
- (5) The beginning stockholders' equity balance in 2007 reflected a reduction to retained earnings of approximately \$0.5 million related to the implementation of Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes, an interpretation of SFAS 109, Accounting for Income Taxes.
- (6) For a discussion regarding our calculation of base business sales, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - RESULTS OF OPERATIONS," of this Form 10-K.

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

2008 FINANCIAL OVERVIEW

Financial Results

In these challenging times, we have focused on business improvement opportunities, maintaining tight control over costs and strengthening our commitment to programs and initiatives that will provide long-term value to customers, suppliers and shareholders. Our 2008 results demonstrate our progress towards achieving these objectives as evidenced by our gross margin expansion, our improved cost structure and increased cash provided by operations compared to 2007.

Net sales decreased 8% as our sales remained pressured by the unprecedented adverse market and economic conditions impacting our industry. Base business sales declined 9% year over year due to soft demand for new pool and irrigation construction products and unfavorable weather. This decrease was partially offset by sales from acquired businesses, primarily our March 2008 acquisition of National Pool Tile Group, Inc. (NPT). We also realized a modest increase in maintenance, repair and replacement (MRR) product sales. However, sales of certain MRR products have declined as more consumers choose to defer discretionary replacement and refurbish activity. Complementary product sales, which are heavily weighted towards new pool construction, decreased approximately 15% compared to a 3% decrease in the same period in 2007.

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

Gross profit as a percentage of net sales (gross margin) improved 140 basis points to 28.9% in 2008 from 27.5% in 2007. The increase in 2008 gross margin is primarily attributable to improved pricing management, an increase in the sales of preferred vendor and Pool Corporation private label products and a favorable shift in product mix.

Selling and administrative expenses (operating expenses) for 2008 increased 1% compared to 2007 due to operating expenses related to acquired businesses. Base business operating expenses decreased 3% year over year, due primarily to the impact from continued cost control initiatives and lower incentive compensation.

Operating income decreased 14% to \$115.5 million in 2008 while operating income as a percentage of net sales (operating margin) was down slightly to 6.4% in 2008 compared to 6.9% in 2007. Interest expense decreased \$3.2 million, or 15%, due primarily to a lower weighted average effective interest rate compared to 2007.

Earnings per share for 2008 was \$1.18 per diluted share on net income of \$57.0 million, compared to \$1.37 per diluted share on net income of \$69.4 million in 2007. Included in 2008 earnings per share is the adverse impact of a loss of \$0.04 per diluted share from our equity interest investment in Latham Acquisition Corporation (LAC). By comparison, this investment contributed income of \$0.02 per diluted share in 2007. Our first quarter 2008 acquisitions had a dilutive impact of \$0.02 per diluted share in 2008.

Financial Position and Liquidity

Cash provided by operations increased \$21.6 million to \$93.3 million in 2008 due primarily to the favorable impact from the decrease in accounts receivable balances. Our 2008 cash provided by operations reflects a negative impact of approximately \$36.0 million related to the net purchase and payment of inventory purchased ahead of vendor price increases, which was largely offset by the benefit related to the deferral of our \$30.0 million total third and fourth quarter 2008 estimated federal tax payments. Cash provided by operations helped fund the following in 2008:

- \$35.5 million for acquisitions, including our acquisition of NPT in March 2008;
- quarterly cash dividend payments to shareholders, which totaled \$24.4 million for the year;
- debt repayments of \$23.1 million; and
- capital expenditures of \$7.0 million.

Total net receivables decreased 18% to \$115.6 million at December 31, 2008 from \$141.1 million at December 31, 2007 due to the lower sales, lower vendor receivables, an increase in the allowance for doubtful accounts and a shift toward more cash sales as a result of tighter credit terms. Our allowance for doubtful accounts balance was \$13.7 million at December 31, 2008, an increase of \$3.8 million over December 31, 2007. We increased the allowance for doubtful accounts in the second half of 2008 to reflect an increase in our total past due receivable balances year over year. Days sales outstanding (DSO) remained steady at 36.3 days at December 31, 2008 and December 31, 2007.

Our inventory levels increased 7% to \$405.9 million as of December 31, 2008 compared to \$379.7 million as of December 31, 2007. This increase reflects approximately \$17.1 million of acquired inventory, primarily related to NPT, and higher inventory levels attributable to the slowdown in sales and opportunistic buying in advance of vendor price increases. Our inventory turns, as calculated on a trailing twelve month basis, slowed to 3.1 times as of December 31, 2008 compared to 3.7 times as of December 31, 2007.

Total debt outstanding decreased to \$327.8 million at December 31, 2008 compared to \$350.9 million at December 31, 2007. Our current ratio increased to 2.1 as of December 31, 2008 compared to 1.8 as of December 31, 2007.

Current Trends

Continuing adverse economic trends have significantly impacted our industry. These trends include a slowdown in the domestic housing market, with lower housing turnover, a sharp drop in new home construction, home value deflation in many markets and a significant tightening of consumer and commercial credit. Some of the factors that help mitigate the impact of these 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 under 20% of our sales and gross profits tied to new pool or irrigation construction in 2008 (as our sales related to new construction activity have declined, the proportion of our net sales represented by MRR products has increased to over 80%); and
- we believe our service-oriented model helps us gain market share.

Despite these mitigating factors, these negative trends have significantly impacted a number of our key markets, including California, Florida and Arizona, with a modest and more recent adverse impact in Texas. We estimate that these trends resulted in the following decreases in new pool construction between 2005 and 2008:

| | 2008 | 2007 | 2006 |
|-------|----------|----------|----------|
| Units | (60,000) | (50,000) | (10,000) |
| % | (40)% | (25)% | (5)% |

We believe these decreases represent the first three year decline in new pool construction in our industry history. Since these trends worsened throughout 2007 and 2008, they had a more pronounced impact on our results for the year ended 2008 compared to the same period in 2007. Given the current economic conditions, we believe these trends could continue into 2009. This may result in an even greater impact on new pool construction and consumer spending on outdoor living spaces, which could negatively impact our sales and earnings.

OUTLOOK

Building on the progress we have made, our 2009 objectives remain focused on strengthening our market leading positions, further improving our gross margin and expanding our cost improvement initiatives. We will also focus on rebalancing our inventories following the opportunistic inventory purchases that we made in the second half of 2008.

We believe that the ongoing housing market and general economic downturns will continue to pressure new pool and irrigation construction activity. However, we expect a relatively stable maintenance market based on the increased installed based of swimming pools. Based on lower projected customer early buy purchases compared to the first quarter of 2008, we expect to see some shift of sales from the first quarter to the second quarter of 2009.

We anticipate mid to high single digit inflationary product cost increases that we expect to pass through the supply chain. Given the ongoing difficult external environment, we will continue to focus on striking an appropriate balance on the extension of credit and maintaining a prudent cost structure. We expect labor costs to decrease slightly compared to 2008 based on cost savings related to our recent headcount reductions and the fact that we have frozen salaries across the board in 2009. Similar to 2008, we expect to realize equity losses from our investment in LAC in 2009 as their business faces sales pressures on their pool construction products. Excluding any acquisition activity, we do not expect to increase the number of sales centers in 2009. Given the challenges in the external environment, we will not provide any earnings per share guidance until we gain more visibility for how our 2009 results are tracking.

We expect to generate sufficient cash flow and have adequate access to capital to both fund our business objectives and our other priorities for the use of cash.

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 Item 1A of this Form 10-K.

CRITICAL ACCOUNTING ESTIMATES

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

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

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

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for an estimate of the losses we will incur if our customers do not make required payments. We perform periodic credit evaluations of our customers and typically do not require collateral. Consistent with industry practices, we generally require payment from our customers within 30 days except

for sales under early buy programs for which we provide extended payment terms to qualified customers. The extended terms usually require payments in equal installments in April, May and June or May and June, depending on geographic location. Credit losses have generally been within or better than our expectations.

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

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

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

During the year, we write off account balances when we have exhausted reasonable collection efforts and determined that the likelihood of collection is remote. Such write-offs are charged against our allowance for doubtful accounts. In the past five years, write-offs have averaged approximately 0.2% of net sales annually. In 2008, write-offs were 0.3% of net sales, reflecting a trend related to the negative impacts on some of our customer's businesses due to the difficult external environment.

If the balance of the accounts receivable reserve increased or decreased by 20% at December 31, 2008, pretax income would change by approximately \$2.7 million and earnings per share would change by approximately \$0.03 per diluted share based on the number of diluted shares outstanding at December 31, 2008.

Inventory Obsolescence

Product inventories represent the largest asset on our balance sheet. Our goal is to manage our inventory such that we minimize stock-outs to provide the highest level of service to our customers. To do this, we maintain at each sales center an adequate inventory of stock keeping units (SKUs) with the highest sales volume. At the same time, we continuously strive to better manage our slower moving classes of inventory, which are not as critical to our customers and thus, inherently have lower velocity. Sales centers classify products into 13 classes based on sales at that location over the past 12 months. All inventory is included in these classes, except for non-stock special order items and products with less than 12 months of usage. The table below presents a description of these inventory classes:

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

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

excess inventory in class 13. We determine excess inventory, which is defined as the amount of inventory on hand in excess of the previous 12 months usage, on a company-wide basis.

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

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

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

If the balance of our inventory reserve increased or decreased by 20% at December 31, 2008, pretax income would change by approximately \$1.7 million and earnings per share would change by approximately \$0.02 per diluted share based on the number of diluted shares outstanding at December 31, 2008.

Vendor Incentives

We account for vendor incentives in accordance with the Emerging Issues Task Force Issue 02-16, Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor. Many of our vendor arrangements provide for us to receive incentives of specified amounts of consideration, payable to us when we achieve any of a number of measures. These measures are generally related to the volume level of purchases from our vendors and may include negotiated pricing arrangements. We account for vendor incentives as if they are a reduction of the prices of the vendor's products and therefore a reduction of inventory until we sell the product, at which time such incentives are recognized as a reduction of cost of sales in our income statement.

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

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

Income Taxes

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

As of December 31, 2008, and in accordance with the provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) 109, Accounting for Income Taxes, United States taxes were

not provided on undistributed earnings of our foreign subsidiaries, as we have invested or expect to invest the undistributed earnings indefinitely. If in the future these earnings are repatriated to the United States, or if we determine that the earnings will be remitted in the foreseeable future, additional tax provisions may be required.

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

We have operations in 38 states and 7 foreign countries. The amount of income taxes we pay is subject to adjustment by the applicable tax authorities. We are subject to regular audits by federal, state and foreign tax authorities. Our estimate for the potential outcome of any uncertain tax issue is highly judgmental. We believe we have adequately provided for any reasonably foreseeable outcome related to these matters. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved or when statutes of limitation on potential assessments expire. These adjustments may include differences between the estimated deferred tax liability that we have recorded for equity earnings in unconsolidated investments and the actual taxes paid upon the return of undistributed equity earnings through a manner other than a capital transaction. As a result of these uncertainties, our total income tax provision may fluctuate on a quarterly basis.

In June 2006, the FASB issued Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes, an interpretation of SFAS 109, Accounting for Income Taxes, to create a single model to address accounting for uncertainty in tax positions. We adopted FIN 48 effective January 1, 2007, as required. We recorded the cumulative impact of adopting FIN 48 in retained earnings. We anticipate that the accounting under the provisions of FIN 48 may provide for greater volatility in our effective tax rate as items are derecognized or as we record changes in measurement in interim periods.

Incentive Compensation Accrual

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

Management sets the objectives for our bonus plans at the beginning of the bonus plan year using both historical information and forecasted results of operations for the current plan year. The Compensation Committee of our Board approves these objectives for certain bonus plans. We record an incentive compensation accrual at the end of each month using management's estimate of the total overall incentives earned based on the amount of progress achieved towards the stated bonus plan objectives. During the third and fourth quarters and as of our fiscal year end, we adjust our estimated incentive compensation accrual based on our detailed analysis of each bonus plan, the participants' progress toward achievement of their specific objectives and management's estimates related to the discretionary components of the bonus plans. Our estimated quarterly incentive compensation expense and accrual balances may vary relative to actual annual bonus expense and payouts due to the following:

- the discretionary components of the bonus plans;
- the timing of the approval and payment of the annual bonuses; and
- our projections related to achievement of multiple year performance objectives for our Strategic Plan Incentive Program.

Impairment of Goodwill and Equity Method Investments

Goodwill

Our largest intangible asset is goodwill. At December 31, 2008, our goodwill balance was \$169.6 million, representing 20% of total assets. Goodwill represents the excess of the amount we paid to acquire a company over the estimated fair value of tangible assets and identifiable intangible assets acquired, less liabilities assumed.

We account for goodwill under the provisions of SFAS 142, Goodwill and Other Intangible Assets. Under these rules, we test goodwill for impairment annually or on a more frequent basis if events or changes in circumstances occur that indicate potential impairment. If the estimated fair value of any of our reporting units has fallen below their carrying value, we compare the estimated fair value of the reporting units' goodwill to its carrying value. If the carrying value of a reporting units' goodwill exceeds its estimated fair value, we recognize the difference as an impairment loss in operating income. Since our operating segment is defined as an individual sales center and we do not have operations below the sales center level, our reporting unit is an individual sales center.

We estimate the fair value of our reporting units by utilizing fair value models, which require us to make several assumptions about projected future cash flows, discount rates and multiples. In order to determine the reasonableness of the assumptions included in our fair value calculations, we compare the total estimated fair value for all aggregated reporting units to our market capitalization on the date of our impairment test. We also review for potential impairment indicators at the reporting unit level based on a detailed evaluation of recent historical operating trends, current and projected local market conditions and other relevant factors as appropriate. If our assumptions or estimates change, we could incur impairment charges in future periods which would decrease operating income and result in lower asset values on our balance sheet. For example, a change in the estimated discount rate of 1% could have resulted in the fair value of our United Kingdom reporting unit falling below its carrying value. Our United Kingdom reporting unit had a goodwill balance of \$7.1 million at December 31, 2008. We have 198 other reporting units with goodwill balances. For these reporting units, the highest goodwill balance is \$5.7 million and the average goodwill balance is \$0.8 million.

In October 2008, we performed our annual goodwill impairment test. As a result of this test, we determined that the goodwill attributed to one of our Ohio sales centers was impaired. Based on the current and projected economic conditions in this market and fixed cost obligations related to an unfavorable long-term lease for this sales center facility, we determined that the estimated fair value for this reporting unit was less than its carrying value. As a result, we performed additional impairment testing to determine the implied fair value of this reporting unit's goodwill. Since the implied fair value of goodwill was less than the carrying value, we wrote-off the \$0.4 million goodwill balance related to this reporting unit. This impairment expense is recorded in selling and administrative expenses on the Consolidated Statements of Income. Based on our annual goodwill impairment test, we determined that the goodwill attributed to our other reporting units is not impaired.

Equity Method Investments

We have two equity method investments, consisting of our 38% investment in Latham Acquisition Corporation (LAC) and our 50% investment in Northpark Corporate Center. We account for these investments in accordance with Accounting Principles Board (APB) Opinion 18, The Equity Method of Accounting for Investments in Common Stock. The carrying value of our investments at December 31, 2008 was \$31.2 million, including \$30.1 million for LAC.

We evaluate our equity method investments for potential impairment indicators on an ongoing basis. This evaluation requires the exercise of judgment based upon the specific facts and circumstances of each investment. A series of actual operating losses or projected future losses of an investee or other factors may indicate a decrease in value of the investment. If impairment indicators exist, we will evaluate whether the impairment is other-than-temporary. Impairment is measured by comparing the investment carrying amount to the estimated fair value of the investment.

Based on the fact that LAC's results have deteriorated due to the current external market conditions (including a net loss in 2008) and our expectations for a continued difficult environment in 2009, we considered other relevant facts and circumstances to determine whether there is an indicator of a decrease in the value of our investment as of December 31, 2008 and, if so, whether it reflects an other-than-temporary impairment. In evaluating the value of our investment in LAC, we considered the following:

- the current challenging industry environment, which had a negative impact on LAC's 2008 results;
- expectations for LAC's near-term and long-term results based primarily on LAC's market position and financial projections (including projections used by LAC in its annual impairment test, which determined that there was no impairment of its goodwill and other intangible balances as of December 31, 2008);
- the anticipated timeframe for LAC's return to profitability; and
- LAC's current financial condition, including its ability to meet working capital needs.

Using the criteria listed above, we determined that there was no impairment of our equity method investments as of December 31, 2008. If there are changes in LAC's financial projections or the factors we consider in performing our evaluations, there could be indicators of a potential decrease in the value of our investments that may result in other-than-temporary impairments.

Recent Accounting Pronouncements

For information about recent accounting pronouncements, see Note 1 of "Notes to Consolidated Financial Statements," included in Item 8 of this Form 10-K.

RESULTS OF OPERATIONS

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

| | Year Ended December 31, | | |
|---|-------------------------|--------|--------|
| | 2008 | 2007 | 2006 |
| Net sales | 100.0% | 100.0% | 100.0% |
| Cost of sales | 71.1 | 72.5 | 71.7 |
| Gross profit | 28.9 | 27.5 | 28.3 |
| Selling and administrative expenses | 22.4 | 20.6 | 19.5 |
| Operating income | 6.4 | 6.9 | 8.8 |
| Interest expense, net | 1.1 | 1.1 | 0.8 |
| Income before income taxes and equity earnings (loss) | 5.4 | 5.8 | 8.0 |

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

Our discussion of consolidated operating results includes the operating results from acquisitions in 2008, 2007 and 2006. We accounted for these acquisitions using the purchase method of accounting and we have included the results of operations in our consolidated results since the respective acquisition dates.

Fiscal Year 2008 compared to Fiscal Year 2007

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 | |
|-------------------------------|----------------------------|-------------|----------------------------|----------|----------------------------|-------------|
| | Year Ended December 31, | | Year Ended December 31, | | Year Ended December 31, | |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Net sales | \$1,696,848 | \$1,873,359 | \$86,835 | \$55,008 | \$1,783,683 | \$1,928,367 |
| Gross profit | 488,502 | 517,157 | 26,726 | 13,489 | 515,228 | 530,646 |
| Gross margin | 28.8% | 27.6% | 30.8% | 24.5% | 28.9% | 27.5% |
| Operating expenses | 370,658 | 382,230 | 29,094 | 14,642 | 399,752 | 396,872 |
| Expenses as a % of net sales | 21.8% | 20.4% | 33.5% | 26.6% | 22.4% | 20.6% |
| Operating income (loss) | 117,844 | 134,927 | (2,368) | (1,153) | 115,476 | 133,774 |
| Operating margin | 6.9% | 7.2% | (2.7)% | (2.1)% | 6.4% | 6.9% |

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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 December 31, 2008):

- acquired sales centers (10, net of consolidations – see table below);
- existing sales centers consolidated with acquired sales centers (7);
- closed sales centers (4);
- consolidated sales centers in cases where we do not expect to maintain the majority of the existing business (1); 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.

In addition to the 22 sales centers excluded from base business as of December 31, 2008, there were two sales centers opened in new markets that were excluded from January to May 2008 before they became base business sales centers in June 2008. Since we divested our pool liner manufacturing operation in France in April 2008, we have also excluded these operations from base business for the comparative nine month period ended December 31, 2007.

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

| Acquired | Acquisition Date | Net Sales Centers Acquired | Period Excluded |
|------------------------------|------------------|----------------------------|--|
| Proplas Plasticos, S.L. (1) | November 2008 | 0 | November and December 2008 |
| National Pool Tile (NPT) (2) | March 2008 | 9 | March – December 2008 |
| Canswim Pools | March 2008 | 1 | March – December 2008 |
| Tor-Lyn, Limited | February 2007 | 1 | February – April 2007 and January – April 2008 |

The table below summarizes the changes in our sales centers during 2008:

| | |
|-------------------------------------|-----|
| December 31, 2007 | 281 |
| Acquired, net of consolidations (2) | 10 |
| New locations | 1 |
| Consolidated | (2) |
| Closed | (2) |
| December 31, 2008 | 288 |

- (1) We acquired a single location in Spain and have consolidated it with our existing Madrid sales center operations.
- (2) We acquired 15 NPT sales centers and have consolidated 6 of these with existing sales centers, including 4 in March 2008 and 2 in the second quarter of 2008.

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

Net Sales

| (in millions) | Year Ended December 31, | | |
|---------------|-------------------------|------------|--------------|
| | 2008 | 2007 | Change |
| Net sales | \$ 1,783.7 | \$ 1,928.4 | \$144.7 (8)% |

The new pool and irrigation construction markets are facing unprecedented adverse conditions created by the combination of significant declines in the real estate and mortgage-backed financing markets. As a result, our 2008 sales were negatively impacted with a more profound effect on pool and irrigation construction product sales. The decrease in net sales was more pronounced in our seasonally slow fourth quarter, declining 14% compared to the same period in 2007 as the economy worsened and consumers began to defer more discretionary repair and replacement purchases.

Base business sales decreased 9% compared to 2007, including an 8% decline on the swimming pool side of the business and 18% on the irrigation side of the business. This impact remains more concentrated in markets that had the greatest run-up in real estate values between 2000 and 2006, which includes a number of our larger markets in Florida, Arizona and parts of California. The decline in new pool construction negatively impacted complementary product sales, which decreased 15% compared to 2007. Overall, weather conditions were unfavorable compared to the same period in 2007 (see discussion of significant weather impacts under the heading Seasonality and Quarterly Fluctuations beginning on page 31).

The overall decrease in net sales was partially offset by increases due to the following:

- approximately \$47.0 million in sales related to our 2008 acquisitions;
- moderate sales growth for MRR products, including a 5% increase in chemical sales;
- estimated average price increases of 2% to 4% that we passed through the supply chain;
- higher freight out income of \$3.3 million due to the implementation of fuel surcharges, which offset the increase in outbound freight costs; and
- 2% sales growth for our International operations due primarily to favorable currency fluctuations.

Our sales growth for MRR products was primarily due to the following:

- the continued successful execution of our sales, marketing and service programs, which we believe have resulted in market share gains;
- higher sales of non-discretionary products due to the increased installed base of swimming pools, which we estimate to have grown approximately 2% to 3% in 2007; and
- price increases (as mentioned above).

Gross Profit

| (in millions) | Year Ended December 31, | | Change |
|---------------|-------------------------|----------|---------------|
| | 2008 | 2007 | |
| Gross profit | \$ 515.2 | \$ 530.6 | \$(15.4) (3)% |
| Gross margin | 28.9% | 27.5% | |

Despite the tough competitive pricing environment, gross margin increased 140 basis points compared to 2007. The increase in gross margin is primarily attributable to our focus on pricing discipline at the sales center level. Other favorable impacts compared to 2007 included the following (listed in order of estimated magnitude):

- increased sales of preferred vendor and Pool Corporation private label products;
- greater margin contribution from our acquisition of NPT;
- a shift in sales mix to products in the higher margin maintenance market;
- benefits to our fourth quarter gross margin resulting from pre-price increase inventory purchases (increase of 130 to 150 basis points in the fourth quarter and approximately 20 basis points for fiscal 2008); and
- a favorable comparison to 2007, which was more negatively impacted by competitive pricing due to other distributors selling off excess inventories.

Operating Expenses

| (in millions) | Year Ended December 31, | | Change |
|---|-------------------------|----------|-----------|
| | 2008 | 2007 | |
| Operating expenses | \$ 399.8 | \$ 396.9 | \$ 2.9 1% |
| Operating expenses as a percentage of net sales | 22.4% | 20.6% | |

The increase in operating expenses is due to approximately \$14.5 million of operating expenses related to our 2008 acquisitions, which was partially offset by a 3% decrease in base business operating expenses compared to 2007. The impact of cost control initiatives offset higher building rental expenses of \$2.6 million (primarily for sales centers opened or expanded during 2007), an increase in bad debt expense of \$2.2 million, higher product delivery costs and inflationary increases in wages and other costs. Total operating expenses as a percentage of net sales increased between periods due to the decrease in net sales.

Our cost control initiatives include tighter management of discretionary costs, the consolidation or closing of nine sales centers since November 2007 and selective personnel reductions over the past year. Despite the 6% reduction in headcount year over year (excluding acquisitions), we still reduced overtime and temporary labor costs by \$4.5 million. Compared to 2007, incentive expenses declined \$3.8 million and employee insurance costs also decreased due primarily to lower claims expense.

Interest Expense

Interest expense decreased 15% between periods as the impact of a decrease in our weighted average effective interest rate for the period more than offset our higher average debt outstanding balance. Average debt outstanding was 3% higher for the year ended 2008, reflecting our increased borrowings during the first half of 2008 that funded our March 2008 acquisitions. The weighted average effective interest rate decreased to 4.8% in 2008 from 6.0% in 2007.

Income Taxes

The decrease in income taxes is due to the decrease in income before income taxes and equity earnings (loss). Our effective income tax rate was 39.26% at December 31, 2008 and 38.66% at December 31, 2007. The increase in the effective income tax rate reflects a valuation allowance established for annual losses from certain foreign operations.

Net Income and Earnings Per Share

Net income decreased 18% to \$57.0 million in 2008. Earnings per share for 2008 decreased to \$1.18 per diluted share compared to \$1.37 in 2007. The dilutive impact of our first quarter acquisitions was approximately \$0.02 per diluted share for 2008. In both periods, earnings per share benefited from the reduction of our weighted average shares outstanding due to the impact of our 2007 share repurchase activities. This included an accretive impact of approximately \$0.02 in 2008 and \$0.01 in 2007.

Fiscal Year 2007 compared to Fiscal Year 2006

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 | |
|-------------------------------|---------------|-------------|--------------|----------|--------------|-------------|
| | Year Ended | | Year Ended | | Year Ended | |
| | December 31, | | December 31, | | December 31, | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Net sales | \$1,877,107 | \$1,894,169 | \$51,260 | \$15,593 | \$1,928,367 | \$1,909,762 |
| Gross profit | 516,375 | 535,510 | 14,271 | 4,438 | 530,646 | 539,948 |
| Gross margin | 27.5% | 28.3% | 27.8% | 28.5% | 27.5% | 28.3% |
| Operating expenses | 384,853 | 369,498 | 12,019 | 3,068 | 396,872 | 372,566 |
| Expenses as a % of net sales | 20.5% | 19.5% | 23.4% | 19.7% | 20.6% | 19.5% |
| Operating income | 131,522 | 166,012 | 2,252 | 1,370 | 133,774 | 167,382 |
| Operating margin | 7.0% | 8.8% | 4.4% | 8.8% | 6.9% | 8.8% |

For an explanation of how we calculate base business, please refer to the discussion of base business beginning on page 24 under the heading "Fiscal Year 2008 compared to Fiscal Year 2007".

For purposes of comparing operating results for the year ended December 31, 2007 to the year ended December 31, 2006, we have excluded 15 acquired sales centers from base business for the periods identified in the table below and an average of four sales centers opened in new markets, of which two are still excluded from base business as of year end. Due to the timing of the two sales centers closed during the fourth quarter of 2007, these locations have not been excluded for the purpose of calculating base business for all periods presented. The three sales centers consolidated with existing sales centers during the fourth quarter of 2007 will remain part of the base business since we expect to transfer the majority of the existing business to our nearby locations.

| Acquired | Acquisition Date | Sales Centers Acquired | Period Excluded |
|---|------------------|------------------------|--|
| Wickham Supply, Inc. and Water Zone, LP | August 2006 | 14 | January – October 2007 and August – October 2006 |
| Tor-Lyn, Limited | February 2007 | 1 | February – December 2007 |

The table below summarizes the changes in our sales centers during 2007:

| | |
|-------------------|-----|
| December 31, 2006 | 274 |
| Acquired | 1 |
| New locations | 12 |
| Consolidated | (1) |
| Closed | (4) |
| December 31, 2007 | 281 |

- (1) One of the consolidations was related to Horizon's centralized shipping location (CSL), which was previously counted as a separate sales center location since it served walkup customers directly. In 2007, this customer activity was consolidated with Horizon's nearby sales center and this location now serves exclusively as a CSL.

For information about our 2007 and 2006 acquisitions, see Note 2 of "Notes to Consolidated Financial Statements," included in Item 8 of this Form 10-K.

Net Sales

| (in millions) | Year Ended December 31, | | |
|---------------|-------------------------|-----------|-----------|
| | 2007 | 2006 | Change |
| Net sales | \$1,928.4 | \$1,909.8 | \$18.6 1% |

The increase in net sales is primarily a result of the Wickham acquisition and sales from new locations that we opened in new markets. Base business sales decreased 1% compared to 2006 as sales declines for products used in new pool and irrigation construction were not fully offset by the sales growth for MRR products and our international operations.

Demand for pool and irrigation construction products was impacted by the weak housing market, tightening credit markets and unfavorable weather conditions. New pool construction permits declined significantly throughout 2007,

especially in our key Florida, Arizona and California markets. Net sales were also adversely impacted by the competitive pricing pressures experienced in the difficult market environment.

Our sales growth for MRR products was primarily due to the following:

- the continued successful execution of our sales, marketing and service programs, resulting in market share gains;
- higher sales of non-discretionary products due to the increased installed base of swimming pools, which we estimate to have grown approximately 3% to 4% in 2006; and
- price increases, primarily the impact in the first half of 2007 of our mid-year 2006 inflationary increases, which we passed through the supply chain.

Complementary product sales decreased 3% year over year compared to a 26% increase from 2005 to 2006. Our complementary product sales were adversely impacted by the declines in new construction activity, but benefited from our expansion of complementary product offerings and an increase in the number of sales centers that now offer complementary products.

Gross Profit

| (in millions) | Year Ended December 31, | | |
|---------------|-------------------------|----------|--------------|
| | 2007 | 2006 | Change |
| Gross profit | \$ 530.6 | \$ 539.9 | \$(9.3) (2)% |
| Gross margin | 27.5% | 28.3% | |

Gross margin decreased 80 basis points compared to 2006, including a consistent decline in base business gross margin.

Our 2007 gross margin is comparatively lower primarily due to the following impacts (listed in order of estimated magnitude):

- competitive pricing pressures, which intensified throughout 2007 given the adverse market conditions;
- early buy inventory purchases and discounts for early payments on those purchases in the fourth quarter of 2005, which benefited our first half 2006 gross margin; and
- pre-price increase inventory purchases in the second quarter of 2006, which benefited our third quarter 2006 gross margin.

Operating Expenses

| (in millions) | Year Ended December 31, | | |
|---|-------------------------|----------|-----------|
| | 2007 | 2006 | Change |
| Operating expenses | \$ 396.9 | \$ 372.6 | \$24.3 7% |
| Operating expenses as a percentage of net sales | 20.6% | 19.5% | |

Total operating expenses grew 7% and increased 110 basis points as a percentage of net sales compared to 2006, while base business operating expenses were 4% higher and increased 100 basis points as a percentage of net sales. These increases reflect the following (listed in order of estimated magnitude):

- incremental expenses for the 29 new sales centers that we have opened since the beginning of 2006;
- higher rent expenses related to our expansion or relocation of numerous sales centers;
- increases in bad debt expense of \$4.2 million compared to 2006;
- higher freight costs; and
- additional expenses for our investments in other growth initiatives.

These increased costs were partially offset by lower incentive expenses and the impact from cost control initiatives.

We opened 12 new sales centers in 2007 compared to 17 new sales centers in 2006.

Interest Expense

Interest expense increased \$7.0 million between periods as average debt outstanding was 41% higher in 2007 compared to 2006. The higher debt levels in 2007 reflect increased borrowings to fund share repurchases. The

weighted average effective interest rate also increased to 6.0% in 2007 from 5.8% in 2006.

Income Taxes

Income taxes decreased to \$43.2 million in 2007 from \$58.8 million in 2006 due to the \$40.6 million decrease in income before income taxes and equity earnings. Our effective income tax rate was 38.66% at December 31, 2007 and 38.61% at December 31, 2006.

Net Income and Earnings Per Share

Net income decreased to \$69.4 million in 2007 from \$95.0 million in 2006. Our equity interest in LAC produced \$0.9 million of net earnings in 2007 compared to \$1.6 million in 2006. Earnings per share for 2007 decreased to \$1.37 per diluted share compared to \$1.74 in 2006. The decrease includes the impact of approximately \$0.16 per diluted share related to the incremental operating expenses for new sales centers opened since January 2006. By comparison, the impact of incremental operating expenses for new sales centers opened in 2006 was approximately \$0.06 per diluted share in 2006. In both 2007 and 2006, earnings per share benefited from the reduction of our weighted average shares outstanding due to the impact of our share repurchase activities.

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 2008, 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. 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 2008 and 2007. 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 the swimming pool industry, the results of any one or more quarters are not necessarily a good indication of results for an entire fiscal year or of continuing trends.

| (Unaudited) (in thousands) | QUARTER | | | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 2008 | | | | 2007 | | | |
| | First | Second | Third | Fourth | First | Second | Third | Fourth |
| Statement of Income Data | | | | | | | | |
| Net sales | \$338,215 | \$692,972 | \$493,530 | \$258,966 | \$373,706 | \$726,472 | \$527,434 | \$300,755 |
| Gross profit | 95,354 | 202,752 | 141,800 | 75,322 | 103,485 | 207,922 | 139,803 | 79,436 |
| Operating income (loss) | 2,197 | 89,990 | 38,617 | (15,328) | 8,632 | 98,433 | 39,505 | (12,796) |
| Net income (loss) | (3,184) | 52,875 | 22,060 | (14,795) | 1,354 | 57,794 | 21,835 | (11,589) |
| Net sales as a % of annual net sales | 19% | 39% | 28% | 15% | 19% | 38% | 27% | 16% |

| | | | | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Gross profit as a % of annual gross profit | 19% | 39% | 28% | 15% | 20% | 39% | 26% | 15% |
| Operating income (loss) as a % of annual operating income | 2% | 78% | 33% | (13)% | 6% | 74% | 30% | (10)% |
| Balance Sheet Data | | | | | | | | |
| Total receivables, net | \$206,187 | \$278,654 | \$178,927 | \$115,584 | \$231,034 | \$301,265 | \$200,534 | \$141,117 |
| Product inventories, net | 476,758 | 385,258 | 345,944 | 405,914 | 413,161 | 388,364 | 317,110 | 379,663 |
| Accounts payable | 333,104 | 193,663 | 128,329 | 173,688 | 325,448 | 229,691 | 127,889 | 194,178 |
| Total debt | 396,110 | 441,992 | 337,742 | 327,792 | 358,522 | 425,599 | 406,465 | 350,852 |

Note: Due to rounding, the sum of quarterly percentage amounts may not equal 100%.

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 starts or in the fourth quarter after the peak selling season ends.

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

| Weather | Possible Effects |
|--|---|
| Hot and dry | Increased purchases of chemicals and supplies for existing swimming pools Increased purchases of above-ground pools and irrigation products |
| Unseasonably cool weather or extraordinary amounts of rain | •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) | •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) | •A shorter pool and landscape season, thus decreasing our sales |

In the first half of 2008, our sales benefited from more favorable weather in Texas and Oklahoma compared to the same period in 2007 (see discussion below). However, our sales were negatively impacted in 2008 by generally unfavorable weather conditions including cooler temperatures and higher precipitation nationally compared to 2007. The start of the 2008 pool season was delayed even further than in 2007 due to several late winter storms in the Midwest and Northeast and much cooler March temperatures across most of the country. Cooler than normal temperatures in August and September also shortened the pool season in 2008 for most North American markets excluding the West Coast, while a number of severe tropical systems adversely impacted our sales in Texas, Florida and Louisiana during the third quarter of 2008.

In 2007, our sales were negatively impacted by extended winter conditions that delayed the start of the pool season in the Northeast compared to 2006, much cooler and unusually wet weather conditions in Texas and Oklahoma during the first seven months of 2007 (which had a significant impact on sales related to pool and landscape construction) and less than ideal conditions in the third quarter, which compared unfavorably to the same period in 2006.

In 2006, our sales benefited from near record high temperatures across much of North America. This favorable impact was more pronounced in the first quarter of 2006, especially in our northern markets which experienced an earlier start to the pool season compared to 2005. While maintenance and impulse sales benefited from the near record high temperatures, sales tied to pool construction and pool usage were hindered by above average precipitation in the Northeast and Northwest. Despite 2006 being the hottest year on record nationally, sales were negatively impacted by much colder than average August and September temperatures which shortened the pool season in certain markets.

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;
- 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 obligations and other general corporate purposes, including acquisitions, share repurchases and dividend payments. 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 share repurchases and capital expenditures.

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

- maintenance and new sales center capital expenditures, which has averaged approximately 0.5% to 0.75% of net sales historically but dropped to 0.4% of net sales in 2008 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 December 31, 2008, 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):

| | Year Ended December 31, | | |
|----------------------|-------------------------|-----------|-----------|
| | 2008 | 2007 | 2006 |
| Operating activities | \$ 93,282 | \$ 71,644 | \$ 69,010 |
| Investing activities | (41,304) | (12,638) | (41,439) |
| Financing activities | (44,726) | (63,957) | (41,586) |

Cash flow provided by operations increased \$21.6 million compared to 2007 due primarily to the favorable impact from the reduction in outstanding accounts receivable. Our 2008 cash provided by operating activities also reflects the benefit related to our \$30.0 million deferred third and fourth quarter 2008 estimated federal tax payments as

allowed by the Internal Revenue Service (IRS) for taxpayers affected by Hurricane Gustav. This benefit was offset by a negative impact of approximately \$36.0 million related to the net purchase and payment of inventory purchased ahead of vendor price increases. In 2008, the increase in cash used in investing activities reflects cash paid for our March 2008 acquisitions partially offset by a decrease in capital expenditures. Cash used in financing activities in 2008 includes \$23.1 million of net payments on debt.

Our 2007 cash provided by operations increased \$2.6 million compared to 2006 due primarily to favorable impacts from changes in working capital balances, which offset the decrease in net income. The working capital impact is reflected in the net change in our receivable and accounts payable balances between periods, but this benefit to our 2007 cash provided by operations was largely offset by the increase in inventory. The change from a use of cash in 2006 to a source of cash in 2007 from other accrued liabilities is due to the payment in 2006 of \$27.0 million in estimated federal tax payments that we deferred from 2005 as allowed by the IRS.

Cash used in investing activities decreased in 2007 compared to 2006 due to the reduced level of acquisition activity. Our financing activities for the year included \$98.5 million of net proceeds from debt and cash related to our stock plans, offset by \$139.7 million of total share repurchases and \$22.7 million for the payment of our quarterly cash dividends to shareholders, which we increased in the second quarter of 2007.

Future Sources and Uses of Cash

As amended on December 20, 2007, 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 \$60.0 million term loan (the Term Loan). The Term Loan matures on December 20, 2010 and the Revolver matures on December 20, 2012. 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.

At December 31, 2008, there was \$153.0 million outstanding and \$86.3 million available for borrowing under the Revolver. The weighted average effective interest rate on the Revolver was approximately 4.2% for the year ended December 31, 2008.

At December 31, 2008, there was \$54.0 million outstanding under the Term Loan of which \$6.0 million is classified as current. In March 2008, we entered into a new interest rate swap agreement to reduce our exposure to fluctuations in interest rates for the remaining outstanding period of the Term Loan. The swap agreement converts the Term Loan's variable interest rate to a fixed rate of 2.4% on the initial notional amount of \$54.0 million, which will decrease as payments are made on the Term Loan, until maturity on December 31, 2010. The swap agreement has an effective date of December 31, 2008.

In May 2008, we renewed our accounts receivable securitization facility (the Receivables Facility) for one year through May 2009. Effective September 2008, the Receivables Facility provided a borrowing capacity of up to \$95.0 million, which was reduced to \$75 million in January 2009. For a discussion of amendments we made to the Receivables Facility in January 2009, see Note 14 of "Notes to Consolidated Financial Statements," included in Item 8 of this Form 10-K.

The Receivables Facility provides for the true sale of certain of our receivables as they are created to a wholly owned, bankruptcy-remote subsidiary. This subsidiary grants an undivided security interest in the receivables to an unrelated commercial paper conduit. Because of the structure of the bankruptcy-remote subsidiary and our ability to control its activities, we include the transferred receivables and related debt in our Consolidated Balance Sheets. We continue to employ this arrangement because it provides us with additional borrowing capacity and flexibility. At December 31, 2008, there was \$20.8 million outstanding under the Receivables Facility at a weighted average effective interest rate of 3.8%. We intend to renew the Receivables Facility in the second quarter of 2009 with comparable or similar terms as those contained in the facility as amended on January 15, 2009.

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. We used the net proceeds from the placement to pay down borrowings under the Credit Facility. In February 2007, we also 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 will decrease to a notional amount of \$50.0 million in 2010.

As of December 31, 2008, we were in compliance with all covenants and financial ratio requirements related to our Credit Facility, our Notes and our Receivables Facility. For additional information regarding our debt arrangements, see Note 5 of “Notes to Consolidated Financial Statements,” included in Item 8 of this Form 10-K.

In the first quarter of 2009, our cash flows will be negatively impacted by the payment of our \$30.0 million third and fourth quarter 2008 estimated federal tax payments in January 2009. As discussed above in the Sources and Uses of Cash section, we deferred these payments as allowed by the IRS.

As of February 20, 2009, \$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.

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. Additionally, we may issue common or preferred stock to raise funds.

Contractual Obligations

At December 31, 2008 our contractual obligations for long-term debt, short-term financing and operating leases were as follows (in thousands):

| | Total | Payments due by period | | | |
|-------------------------|------------|------------------------|--------------|--------------|------------------------------|
| | | Less than 1 year | 1-2 years | 3-4 years | 5 years and thereafter |
| Long-term debt | \$ 307,000 | \$ 6,000 | \$ 48,000 | \$ 253,000 | \$ — |
| Short-term financing | 20,792 | 20,792 | — | — | — |
| Operating leases | 201,969 | 51,022 | 75,898 | 45,422 | 29,627 |
| | \$ 529,761 | \$ 77,814 | \$ 123,898 | \$ 298,422 | \$ 29,627 |

For additional discussion related to our debt, see Note 5 of “Notes to Consolidated Financial Statements,” included in Item 8 of this Form 10-K. The table below contains estimated interest payments related to our long-term debt and short-term financing obligations listed in the table above. Our estimates of future interest payments are calculated based on the December 31, 2008 outstanding balances of each of our debt instruments and the related effective interest rates for the year ended December 31, 2008. On our Term Loan and our Notes, the variable rates are converted to fixed rates under our existing swap agreements. To project the estimated interest expense to coincide with the time periods used in the table above, we have projected the estimated debt balances for future years based on information currently available related to scheduled payments and maturities of these debt instruments.

| | Total | Estimated payments due by period | | | |
|----------------------------|-----------|----------------------------------|--------------|--------------|------------------------------|
| | | Less than 1 year | 1-2 years | 3-4 years | 5 years and thereafter |
| Future interest expense | \$ 48,808 | \$ 13,546 | \$ 23,748 | \$ 11,514 | \$ — |

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks, including interest rate risk and foreign currency risk. The adverse effects of potential changes in these market risks are discussed below. The following discussion does not consider the effects of the reduced level of overall economic activity that could exist following such changes. Further, in the event of changes of such magnitude, we would likely take actions to mitigate our exposure to such changes.

Interest Rate Risk

Our earnings are exposed to changes in short-term interest rates because of the variable interest rates on our debt. However, we have entered into interest rate swap agreements to reduce our exposure to fluctuations in interest rates on our Term Loan and our Notes.

If (i) the variable rates on our Revolver and our Receivables Facility increased or decreased 1.0% from the rate at December 31, 2008; and (ii) we borrowed the maximum amount available as of December 31, 2008 under the Revolver (\$315.0 million, assuming that at our request and with agreement by the lenders, we exercised the \$75.0 million accordion feature) and the Receivables Facility (\$95.0 million) for all of 2008, then our pretax income would decrease by approximately \$4.1 million and earnings per share would decrease by \$0.05 per diluted share based on the number of weighed average diluted shares outstanding at December 31, 2008.

Failure of our swap counterparty 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 counterparty 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.

Currency Risk

We have wholly owned subsidiaries in Canada, the United Kingdom, France, Italy, Portugal, Spain and Mexico. In the past, we have not hedged our currency exposure, and fluctuations in exchange rates have not materially affected our operating results. Future changes in exchange rates may positively or negatively impact our revenues, operating expenses and earnings. Due to the relative small size of our international operations, however, we do not anticipate that exposure to currency rate fluctuations will be material in 2009.

| Functional Currencies | |
|-----------------------|-----------------|
| Canada | Canadian Dollar |
| United Kingdom | British Pound |
| France | Euro |
| Italy | Euro |
| Portugal | Euro |
| Spain | Euro |
| Mexico | Peso |

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Pool Corporation

We have audited the accompanying consolidated balance sheets of Pool Corporation as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pool Corporation at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 8 to the financial statements, in 2007 the Company changed its method of accounting for income taxes.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Pool Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 2, 2009 expressed an unqualified opinion thereon.

/s/Ernst & Young LLP

New Orleans, Louisiana
March 2, 2009

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

| | Year Ended December 31, | | |
|---|-------------------------|--------------|--------------|
| | 2008 | 2007 | 2006 |
| Net sales | \$ 1,783,683 | \$ 1,928,367 | \$ 1,909,762 |
| Cost of sales | 1,268,455 | 1,397,721 | 1,369,814 |
| Gross profit | 515,228 | 530,646 | 539,948 |
| Selling and administrative expenses | 399,752 | 396,872 | 372,566 |
| Operating income | 115,476 | 133,774 | 167,382 |
| Interest expense, net | 18,912 | 22,148 | 15,196 |
| Income before income taxes and equity earnings (loss) | 96,564 | 111,626 | 152,186 |
| Provision for income taxes | 37,911 | 43,154 | 58,759 |
| Equity earnings (loss) in unconsolidated investments, net | (1,697) | 922 | 1,597 |
| Net income | \$ 56,956 | \$ 69,394 | \$ 95,024 |
| Earnings per share: | | | |
| Basic | \$ 1.19 | \$ 1.42 | \$ 1.83 |
| Diluted | \$ 1.18 | \$ 1.37 | \$ 1.74 |
| Weighted average shares outstanding: | | | |
| Basic | 47,758 | 48,887 | 51,866 |
| Diluted | 48,444 | 50,802 | 54,662 |
| Cash dividends declared per common share | | | |
| | \$ 0.51 | \$ 0.465 | \$ 0.405 |

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

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

| | December 31, | |
|--|-------------------|-------------------|
| | 2008 | 2007 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 15,762 | \$ 15,825 |
| Receivables, net | 16,311 | 45,257 |
| Receivables pledged under receivables facility | 99,273 | 95,860 |
| Product inventories, net | 405,914 | 379,663 |
| Prepaid expenses and other current assets | 7,676 | 8,265 |
| Deferred income taxes | 11,908 | 9,139 |
| Total current assets | 556,844 | 554,009 |
| Property and equipment, net | 33,048 | 34,223 |
| Goodwill | 169,569 | 155,247 |
| Other intangible assets, net | 13,339 | 14,504 |
| Equity interest investments | 31,157 | 33,997 |
| Other assets, net | 26,949 | 22,874 |
| Total assets | \$ 830,906 | \$ 814,854 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 173,688 | \$ 194,178 |
| Accrued expenses and other current liabilities | 61,701 | 37,216 |
| Short-term financing | 20,792 | 68,327 |
| Current portion of long-term debt and other long-term liabilities | 6,111 | 3,439 |
| Total current liabilities | 262,292 | 303,160 |
| Deferred income taxes | 20,032 | 17,714 |
| Long-term debt | 301,000 | 279,525 |
| Other long-term liabilities | 5,848 | 5,664 |
| Total liabilities | 589,172 | 606,063 |
| Stockholders' equity: | | |
| Common stock, \$.001 par value; 100,000,000 shares authorized; 48,218,872 and 47,516,989 shares issued and outstanding at December 31, 2008 and 2007, respectively | 48 | 47 |
| Additional paid-in capital | 189,665 | 171,996 |
| Retained earnings | 54,407 | 29,044 |
| Accumulated other comprehensive income (loss) | (2,386) | 7,704 |
| Total stockholders' equity | 241,734 | 208,791 |

| | | |
|--|------------|------------|
| Total liabilities and stockholders' equity | \$ 830,906 | \$ 814,854 |
|--|------------|------------|

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

POOL CORPORATION
Consolidated Statements of Cash Flows
(In thousands)

| | Year Ended December 31, | | |
|---|-------------------------|----------------------|-----------------------|
| | 2008 | 2007 | 2006 |
| Operating activities | | | |
| Net income | \$ 56,956 | \$ 69,394 | \$ 95,024 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 9,732 | 9,289 | 8,162 |
| Amortization | 3,722 | 4,694 | 4,742 |
| Share-based compensation | 6,709 | 7,398 | 7,204 |
| Excess tax benefits from share-based compensation | (4,538) | (8,482) | (14,627) |
| Provision for doubtful accounts receivable, net of write-offs | 4,619 | 5,047 | 1,217 |
| Provision for inventory obsolescence, net | 1,813 | 610 | 902 |
| Change in deferred income taxes | (2,198) | (3,747) | (4,521) |
| Loss on sale of property and equipment | 333 | 56 | 73 |
| Equity (earnings) loss in unconsolidated investments | 2,800 | (1,523) ⁾ | (2,602) |
| Goodwill impairment | 440 | — | — |
| Other | (104) | (40) | — |
| Changes in operating assets and liabilities, net of effects of acquisitions and divestitures: | | | |
| Receivables | 26,350 | 8,822 | (5,301) |
| Product inventories | (11,098) | (48,001) | 5,882 |
| Prepaid expenses and other assets | 25 | (870) | (1,054) |
| Accounts payable | (24,916) | 16,505 | (5,269) |
| Accrued expenses and other current liabilities | 22,637 | 12,492 | (20,822) ⁾ |
| Net cash provided by operating activities | 93,282 | 71,644 | 69,010 |
| Investing activities | | | |
| Acquisition of businesses, net of cash acquired | (35,466) | (2,087) | (26,662) |
| Divestiture of business | 1,165 | — | — |
| Proceeds from sale of investment | — | 75 | — |
| Purchase of property and equipment, net of sale proceeds | (7,003) | (10,626) | (14,777) |
| Net cash used in investing activities | (41,304) | (12,638) | (41,439) |
| Financing activities | | | |
| Proceeds from revolving line of credit | 370,948 | 477,246 | 442,495 |

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| | | | |
|---|-----------|-----------|-----------|
| Payments on revolving line of credit | (343,473) | (482,878) | (380,438) |
| Proceeds from asset-backed financing | 83,335 | 87,479 | 93,347 |
| Payments on asset-backed financing | (130,870) | (93,438) | (84,718) |
| Proceeds from long-term debt | — | 100,000 | — |
| Payments on long-term debt and other long-term liabilities | (3,171) | (4,321) | (1,514) |
| Payments of capital lease obligations | (251) | (257) | (257) |
| Payment of deferred financing costs | (56) | (1,152) | (156) |
| Excess tax benefits from share-based compensation | 4,538 | 8,482 | 14,627 |
| Proceeds from issuance of common stock under share-based compensation plans | 6,423 | 7,292 | 7,220 |
| Payments of cash dividends | (24,431) | (22,734) | (21,080) |
| Purchases of treasury stock | (7,718) | (139,676) | (111,112) |
| Net cash used in financing activities | (44,726) | (63,957) | (41,586) |
| Effect of exchange rate changes on cash | (7,315) | 4,042 | 3,883 |
| Change in cash and cash equivalents | (63) | (909) | (10,132) |
| Cash and cash equivalents at beginning of year | 15,825 | 16,734 | 26,866 |
| Cash and cash equivalents at end of year | \$ 15,762 | \$ 15,825 | \$ 16,734 |

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

POOL CORPORATION
 Consolidated Statements of Cash Flows (continued)
 (In thousands)

| Supplemental cash flow information | Year Ended December 31, | | |
|---------------------------------------|-------------------------|-----------|-----------|
| | 2008 | 2007 | 2006 |
| Cash paid during the year for: | | | |
| Interest | \$ 18,226 | \$ 21,321 | \$ 14,823 |
| Income taxes, net of refunds | 8,619 | 30,509 | 74,822 |

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

POOL CORPORATION
Consolidated Statements of Changes in Stockholders' Equity
(In thousands, amounts in Dollars except share data)

(2005 as adjusted - see Note 1)

| | Common Stock Shares | Common Stock Amount | Treasury Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|--|------------------------|------------------------|-------------------|----------------------------------|----------------------|--|------------|
| Balance at December 31, 2005 | 52,415 | 52 | (921) | 119,770 | 160,684 | 2,139 | 281,724 |
| Net income | — | — | — | — | 95,024 | — | 95,024 |
| Foreign currency translation | — | — | — | — | — | 3,854 | 3,854 |
| Interest rate swap, net of tax of \$139 | — | — | — | — | — | 222 | 222 |
| Comprehensive income, net of tax | | | | | | | 99,100 |
| Treasury stock, 2,778 shares of common stock | — | | -(111,112) | — | — | | -(111,112) |
| Retirement of treasury shares | (2,616) | (3) | 104,699 | -(104,696) | | | — |
| Share-based compensation | — | — | — | 7,204 | — | | 7,204 |
| Exercise of stock options including tax benefit of \$14,627 | 1,072 | 1 | — | 19,948 | — | | 19,949 |
| Declaration of cash dividends | — | — | — | — | (21,080) | | (21,080) |
| Employee stock purchase plan | 58 | — | — | 1,899 | — | | 1,899 |
| Balance at December 31, 2006 | 50,929 | 50 | (7,334) | 148,821 | 129,932 | 6,215 | 277,684 |
| Net income | — | — | — | — | 69,394 | — | 69,394 |
| Foreign currency translation | — | — | — | — | — | 4,042 | 4,042 |
| Interest rate swap, net of tax of \$1,606 | — | — | — | — | — | (2,553) | (2,553) |
| Comprehensive income, net of tax | | | | | | | 70,883 |
| Treasury stock, 4,165 shares of common stock | — | | -(139,676) | — | — | | -(139,676) |
| Retirement of treasury shares | (4,351) | (4) | 147,010 | -(147,006) | | | — |
| FIN 48 cumulative adjustment | — | — | — | — | (542) | | (542) |

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| | | | | | | | |
|--|--------|-----|---------|---------|----------|---------|----------|
| Share-based compensation | — | — | — | 7,398 | — | — | 7,398 |
| Exercise of stock options including tax benefit of \$8,482 | 839 | 1 | — | 14,544 | — | — | 14,545 |
| Declaration of cash dividends | — | — | — | — | (22,734) | — | (22,734) |
| Issuance of restricted stock | 62 | — | — | — | — | — | — |
| Employee stock purchase plan | 37 | — | — | 1,233 | — | — | 1,233 |
| Balance at December 31, 2007 | 47,516 | 47 | — | 171,996 | 29,044 | 7,704 | 208,791 |
| Net income | — | — | — | — | 56,956 | — | 56,956 |
| Foreign currency translation | — | — | — | — | — | (7,315) | (7,315) |
| Interest rate swap, net of tax of \$1,730 | — | — | — | — | — | (2,775) | (2,775) |
| Comprehensive income, net of tax | | | | | | | 46,866 |
| Treasury stock, 429 shares of common stock | — | — | (7,719) | — | — | — | (7,719) |
| Retirement of treasury shares | (429) | (1) | 7,719 | — | (7,718) | — | — |
| Share-based compensation | — | — | — | 6,709 | — | — | 6,709 |
| Exercise of stock options including tax benefit of \$4,538 | 1,058 | 2 | — | 9,875 | — | — | 9,877 |
| Declaration of cash dividends | — | — | — | — | (24,431) | — | (24,431) |
| Issuance of restricted stock | 5 | — | — | — | — | — | — |
| Other | — | — | — | — | 556 | — | 556 |
| Employee stock purchase plan | 68 | — | — | 1,085 | — | — | 1,085 |
| Balance at December 31, 2008 | 48,218 | 48 | — | 189,665 | 54,407 | (2,386) | 241,734 |

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

POOL CORPORATION
Notes to Consolidated Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies

Description of Business

As of December 31, 2008, Pool Corporation and our wholly owned subsidiaries (the Company, which may be referred to as POOL, we, us or our), maintained 288 sales centers in North America and Europe from which we sell swimming pool equipment, parts and supplies and irrigation and landscape products to pool builders, retail stores, service companies, landscape contractors and golf courses. We distribute products through three networks: The SCP Distributors (SCP) network, the Superior Pool Products (Superior) network and the Horizon Distributors (Horizon) network.

Basis of Presentation and Principles of Consolidation

We prepared the Consolidated Financial Statements following U.S. generally accepted accounting principles (GAAP) and the requirements of the Securities and Exchange Commission (SEC). The financial statements include all normal and recurring adjustments that are necessary for a fair presentation of our financial position and operating results. The Consolidated Financial Statements include the accounts of Pool Corporation and our wholly owned subsidiaries. We eliminated all significant intercompany accounts and transactions among our wholly owned subsidiaries.

Use of Estimates

In order to prepare financial statements that conform to GAAP, we make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Our most significant estimates are those relating to the allowance for doubtful accounts, the inventory reserve, vendor incentives, income taxes, incentive compensation accruals and impairment evaluations. We continually review our estimates and make adjustments as necessary, but actual results could be significantly different from what we expected when we made these estimates.

Segment Reporting

Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) 131, Disclosures about Segments of an Enterprise and Related Information, establishes standards for the way that public companies report information about operating segments in annual financial statements and for related disclosures about products and services, geographic areas and major customers. POOL's management evaluates our sales centers based upon their individual performance relative to predetermined standards that include both financial and operational measures. Additionally, POOL's management makes decisions about how to allocate resources primarily on a sales center-by-sales center basis. Since all of our sales centers have similar operations and share similar economic characteristics, we aggregate our sales centers into a single reportable segment.

Based on the number of product lines and product categories we have, the fact that we do not track sales by product lines and product categories on a consolidated basis and the fact that we make ongoing changes to how products are classified within these groups, it is impracticable to report our sales by product category.

Seasonality and Weather

Our business is highly seasonal and weather is one of the principal external factors affecting our business. In general, sales and net 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.

Revenue Recognition

We recognize revenue in accordance with SEC Staff Accounting Bulletin 104 (SAB 104), Revenue Recognition in Financial Statements, and the appropriate amendments. SAB 104 requires that four basic criteria must be met before we can recognize revenue:

1. persuasive evidence of an arrangement exists;
2. delivery has occurred or services have been rendered;
3. the seller's price to the buyer is fixed or determinable; and
4. collectibility is reasonably assured.

We record revenue when customers take delivery of products. Customers may pick up products at any sales center location, or products may be delivered via our trucks or third party carriers. Products shipped via third party carriers are considered delivered based on the shipping terms, which are generally FOB shipping point.

We may offer volume incentives to customers. We account for these incentives as an adjustment to net sales. We estimate the amount of volume incentives earned based on our estimate of cumulative sales for the fiscal year relative to our customers' progress toward achieving minimum purchase requirements. We record customer returns, including those associated with early buy programs, as an adjustment to net sales. In the past, customer returns have not been material.

We report revenue net of tax amounts that we collect from our customers and remit to governmental authorities. These tax amounts may include, but are not limited to, sales, use, value added and some excise taxes.

Vendor Incentives

We account for vendor incentives in accordance with the Emerging Issues Task Force Issue (EITF) 02-16, Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor. Many of our arrangements with our vendors provide for us to receive incentives of specified amounts of consideration, payable to us when we achieve any of a number of measures. These measures are generally related to the volume level of purchases from our vendors and may include negotiated pricing arrangements. We account for such incentives as if they are a reduction of the prices of the vendor's products and therefore as a reduction of inventory until we sell the product, at which time such incentives are recognized as a reduction of cost of sales in our income statement.

Throughout the year, we estimate the amount of the incentive earned based on our estimate of cumulative purchases for the fiscal year relative to the purchase levels that mark our progress toward earning the incentives. We accrue vendor incentives on a monthly basis using these estimates provided that we determine they are probable and reasonably estimable. We continually revise these estimates to reflect actual incentives earned based on actual purchase levels and trends. When we make adjustments to our estimates, we determine whether any portion of the adjustment impacts the amount of vendor incentives that are deferred in inventory. In accordance with EITF 02-16, we recognize changes in our estimates for vendor incentives as a cumulative catch-up adjustment to the amounts recognized to date in our Consolidated Financial Statements.

Shipping and Handling Costs

We include shipping and handling fees billed to customers in net sales and we record shipping and handling costs associated with inbound freight as cost of sales. The table below presents shipping and handling costs associated with outbound freight, which we include in selling and administrative expenses (in thousands):

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| 2008 | 2007 | 2006 |
|-----------|-----------|-----------|
| \$ 38,024 | \$ 36,054 | \$ 32,682 |

Share-Based Compensation

We account for our employee stock options under SFAS 123(R), Share-Based Payment, which requires companies to recognize compensation cost for stock options and other stock-based awards based on the estimated fair value as measured on the grant date. We have selected a Black-Scholes model for estimating the grant date fair value of share-based payments under SFAS 123(R). As of January 1, 2006, we have adjusted all prior period financial statements and the related footnote disclosures to reflect compensation cost for the amounts previously reported in our pro-forma footnote disclosures required by SFAS 123. For additional discussion of share-based compensation, see Note 7.

Advertising Costs

We expense advertising costs when incurred. The table below presents advertising expense for the past three years (in thousands):

| | 2008 | 2007 | 2006 |
|--|----------|----------|----------|
| | \$ 7,139 | \$ 7,646 | \$ 9,463 |

Income Taxes

In June 2006, the FASB issued Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes, an interpretation of SFAS 109, Accounting for Income Taxes, to create a single model to address accounting for uncertainty in tax positions. We adopted FIN 48 effective January 1, 2007, as required. We recorded the cumulative impact of adopting FIN 48 in retained earnings. We anticipate that the accounting under the provisions of FIN 48 may provide for greater volatility in our effective tax rate as items are derecognized or as we record changes in measurement in interim periods.

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

We record a valuation allowance to reduce the carrying amounts of net deferred tax assets if there is uncertainty regarding their realization. We consider many factors when assessing the likelihood of future realization including our recent cumulative earnings experience by taxing jurisdiction, expectations of future taxable income, the carryforward periods available to us for tax reporting purposes and other relevant factors. For additional discussion of income taxes, see Note 8.

Equity Method Investments

We account for our 38% investment in Latham Acquisition Corporation (LAC) and our 50% investment in Northpark Corporate Center, LLC (NCC) using the equity method of accounting. Accordingly, we report our share of income or loss based on our ownership interests in these investments. LAC is a manufacturer of packaged pools and related products. Since we purchase inventory from LAC, we adjust our share of LAC's income or loss to defer the estimated gross profit recognized by LAC related to our ending on-hand inventory balance. In the fourth quarter of 2008, we revised our estimation process for determining the deferred gross profit amount. Based on our ending on-hand inventory balance at December 31, 2008, we recognized approximately \$1.0 million of additional equity loss than we would have under our previous deferral calculation. Our net equity loss from our investment in LAC was \$1.7 million in 2008 compared to net equity earnings of \$0.9 million in 2007.

The carrying value of our investments at December 31, 2008 was \$31.2 million, including \$30.1 million for LAC. We evaluate our equity method investments for potential impairment indicators on an ongoing basis. This evaluation requires the exercise of judgment based upon the specific facts and circumstances of each investment. A series of actual operating losses or projected future losses of an investee or other factors may indicate a decrease in value of the investment. If impairment indicators exist, we will evaluate whether the impairment is other-than-temporary. We determined that there was no impairment of our equity method investments as of December 31, 2008.

Earnings Per Share

In accordance with SFAS 128, Earnings per Share, we calculate basic earnings per share by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share includes the dilutive effects of share-based awards. For additional discussion of earnings per share, see Note 9.

Fair Value Measurements

Effective January 1, 2008, we prospectively implemented the provisions of SFAS 157, Fair Value Measurements. For the fair value measurements that are required or permitted under other standards, SFAS 157 clarifies the fair value objective and establishes a framework for developing fair value estimates. In February 2008, the FASB issued FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2), which defers the effective date for us to January 1, 2009 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring basis (that is, at least annually). We do not believe the adoption of FSP FAS 157-2 will have a material impact on our Consolidated Financial Statements.

SFAS 157 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.

Derivatives and Hedging Activities

We recognize all derivatives at fair value on the Consolidated Balance Sheet. The effective portion of changes in the fair value of derivatives qualifying as cash flow hedges are recognized in other comprehensive income (loss) until the hedged item is recognized in earnings, or until it becomes unlikely that the hedged transaction will occur. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

We currently have two interest rate swaps in place to reduce our exposure to fluctuations in interest rates. We designated these swaps as cash flow hedges. We recognize any differences paid or received on the interest rate swaps as an adjustment to interest expense over the life of the swaps. For additional discussion of our interest rate swaps, see Note 5.

Financial Instruments

The carrying values of cash, receivables, accounts payable and accrued liabilities approximate fair value due to the short maturity of those instruments. The carrying amount of long-term debt approximates fair value as it bears interest at variable rates.

Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Credit Risk and Allowance for Doubtful Accounts

We record trade receivables at the invoiced amount less an allowance for doubtful accounts for estimated losses due to customer non-payment. We perform periodic credit evaluations of our customers and we typically do not require collateral. Consistent with industry practices, we require payment from our customers within 30 days except for sales under early buy programs for which we provide extended payment terms to qualified customers. The following table summarizes the changes in our allowance for doubtful accounts for the past three years (in thousands):

| | 2008 | 2007 | 2006 |
|--------------------------------|-----------|----------|----------|
| Balance at beginning of year | \$ 9,938 | \$ 4,892 | \$ 4,211 |
| Acquisition of businesses, net | — | — | (536) |
| Bad debt expense | 9,855 | 7,634 | 3,420 |
| Write-offs, net of recoveries | (5,355) | (2,588) | (2,203) |
| Reclassified balance (1) | (750) | — | — |
| Balance at end of year | \$ 13,688 | \$ 9,938 | \$ 4,892 |

- (1) Upon conversion of a customer's outstanding \$1.8 million trade accounts receivable balance to a note receivable balance in January 2008, we reclassified both the gross trade accounts receivable balance and the associated reserve balance to other non-current assets on the Consolidated Balance Sheet.

Product Inventories and Reserve for Inventory Obsolescence

Product inventories consist primarily of goods we purchase from manufacturers to sell to our customers. We record inventory at the lower of cost, using the average cost method, or market. We establish our reserve for inventory obsolescence based on inventory turns by category with particular emphasis on stock keeping units with the weakest sales over the previous 12 months. The reserve is intended to reflect the net realizable value of inventory that we may not be able to sell at a profit.

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

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

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

The following table summarizes the changes in our allowance for inventory obsolescence for the past three years (in thousands):

| | 2008 | 2007 | 2006 |
|-------------------------------------|----------|----------|----------|
| Balance at beginning of year | \$ 5,403 | \$ 4,777 | \$ 3,875 |
| Acquisition of businesses, net | 1,165 | — | 350 |
| Provision for inventory write-downs | 3,131 | 1,788 | 1,196 |
| Deduction for inventory write-offs | (1,251) | (1,162) | (644) |
| Balance at end of year | \$ 8,448 | \$ 5,403 | \$ 4,777 |

Property and Equipment

Property and equipment are stated at cost. We depreciate property and equipment on a straight-line basis over the following estimated useful lives:

| | |
|-------------------------|--------------|
| Buildings | 40 years |
| Leasehold improvements | 1 - 10 years |
| Autos and trucks | (1) 3 years |
| Machinery and equipment | 7 - 10 years |
| Computer equipment | 3 - 5 years |
| Furniture and fixtures | 10 years |

(1)For substantial improvements made near the end of a lease term where we are reasonably certain the lease will be renewed, we amortize the leasehold improvement over the remaining life of the lease including the expected renewal period.

The table below presents depreciation expense for the past three years (in thousands):

| 2008 | 2007 | 2006 |
|----------|----------|----------|
| \$ 9,732 | \$ 9,289 | \$ 8,162 |

Acquisitions

In accordance with SFAS 141, Business Combinations, we account for acquisitions using the purchase method of accounting and allocate the cost of an acquired business to the assets acquired and liabilities assumed based on their estimated fair values. We revise these estimates as necessary if any additional information becomes available during a one year allocation period from the date of acquisition. These revisions may include working capital adjustments based on new or additional facts about the business, final estimates of acquired assets and assumed liabilities and

changes in the purchase price due to updated estimates or the resolution of items related to contingent consideration. We include the results of operations of acquired businesses in our Consolidated Financial Statements as of the acquisition date. For additional discussion of acquisitions, see Note 2.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the amount we paid to acquire a company over the estimated fair value of tangible assets and identifiable intangible assets acquired, less liabilities assumed. We account for goodwill under the provisions of SFAS 142, Goodwill and Other Intangible Assets. In accordance with these rules, we test goodwill and other indefinite lived intangible assets for impairment annually or at any other time when impairment indicators exist.

For our annual goodwill impairment test, we compare our estimated fair value of reporting units to their carrying value, including goodwill. We continually evaluate our operating performance against our estimates to determine if an updated interim assessment is necessary. Since our operating segment is defined as an individual sales center and we do not have operations below the sales center level, our reporting unit is an individual sales center. For additional discussion of goodwill and other intangible assets, see Note 3.

Self Insurance

We are self-insured for employee health benefits, workers' compensation coverage, automobile and property and casualty insurance. We have limited our exposure by maintaining excess and aggregate liability coverage for each of these items. We establish self-insurance reserves based on estimates of claims incurred but not reported and information that we obtain from third-party service providers regarding known claims. Our management reviews these reserves based on consideration of various factors, including but not limited to the age of existing claims, estimated settlement amounts and other historical claims data.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS 141 (Revised), Business Combinations (SFAS 141(R)), which replaced SFAS 141, and SFAS 160, Noncontrolling Interests in Consolidated Financial Statements — an Amendment of ARB 51. SFAS 141(R) retains the fundamental requirements of SFAS 141, but broadens its scope by applying the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141(R) also requires that consideration exchanged be measured at fair value as of the acquisition date, that liabilities related to contingent consideration be recognized at the acquisition date and remeasured at fair value in each subsequent reporting period, that acquisition-related costs be expensed as incurred and that income be recognized if the fair value of the net assets acquired exceeds the fair value of the consideration transferred. SFAS 160 establishes accounting and reporting standards for noncontrolling interests (i.e., minority interests) in a subsidiary, including changes in a parent's ownership interest in a subsidiary, and requires that noncontrolling interests in subsidiaries be classified as a separate component of equity.

SFAS 141(R) and SFAS 160 are effective for fiscal years beginning after December 15, 2008. We will apply SFAS 141(R) prospectively to business combinations completed on or after January 1, 2009. We do not believe the adoption of SFAS 141(R) will have a significant impact on our current consolidated results of operations and financial position. SFAS 160 is also required to be applied prospectively, except for the presentation and disclosure requirements, which are required to be applied retrospectively for all periods presented. The adoption of SFAS 160 will not have a material impact on our Consolidated Financial Statements.

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities. SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures that will provide a better understanding of their effects on an entity's financial position, financial performance and cash flows. The provisions of SFAS 161 are effective for fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS 161 will impact our footnote disclosures included in our Consolidated Financial Statements.

Note 2 - Acquisitions and Divestitures

2008 Acquisitions and Divestitures

In March 2008, we acquired National Pool Tile Group, Inc. (NPT), a leading wholesale distributor of pool tile and composite pool finishes serving professional contractors in the swimming pool refurbish and construction markets through 15 distribution sales centers. As of December 31, 2008, we had consolidated six of the acquired sales centers into our existing sales centers. We have included the results of operations for NPT in our Consolidated Financial Statements since the acquisition date. We have completed the purchase price allocations for our acquisition of NPT on a preliminary basis, subject to adjustments in accordance with the purchase agreement and other adjustments should new or additional facts about the business become known. We expect to finalize the allocations by the first quarter of 2009. This acquisition did not have a material impact on our financial position or results of operations.

Also in March 2008, we acquired Canswim Pools (Canswim), a manufacturer of in-ground swimming pools and a distributor of in-ground swimming pools and supplies with one sales center location in Ontario, Canada. We have included the results of operations for Canswim in our Consolidated Financial Statements since the acquisition date. We have completed the purchase price allocations for our acquisition of Canswim on a preliminary basis, subject to adjustments in accordance with the purchase agreement and other adjustments should new or additional facts about the business become known. We expect to finalize the allocations by the first quarter of 2009. This acquisition did not have a material impact on our financial position or results of operations.

In November 2008, we acquired Proplas Plasticos, S.L. (Proplas), a distributor of swimming pool products and irrigation and plumbing supplies in Madrid, Spain. We have included the results of operations for Proplas in our Consolidated Financial Statements since the acquisition date. We have completed the purchase price allocations for our acquisition of Proplas on a preliminary basis and are currently negotiating certain aspects of the purchase agreement which could impact the terms of the transaction. The allocation is subject to adjustments in accordance with the purchase agreement as ultimately resolved and other adjustments should new or additional facts about the business become known. We will finalize any adjustments to the preliminary allocations by the fourth quarter of 2009. This acquisition did not have a material impact on our financial position or results of operations.

In April 2008, we divested our pool liner manufacturing operation in France (SOFI Manufacturing). We acquired SOFI Manufacturing as part of our 2003 acquisition of Sud Ovest Filtration, a distributor of swimming pool products operating one sales center in Bordeaux, France. Our decision to divest our pool liner manufacturing operation allows us to focus on our core distribution business.

2007 Acquisitions

In February 2007, we acquired Tor-Lyn Limited, a swimming pool supply distributor with one sales center location in Ontario, Canada. We have included the results of operations for Tor-Lyn Limited in our Consolidated Financial Statements since the acquisition date. This acquisition did not have a material impact on our financial position or results of operations.

2006 Acquisitions

In August 2006, we acquired all of the outstanding stock of Wickham Supply, Inc. and Water Zone, LP (collectively Wickham), a leading regional irrigation products distributor. Wickham operates 14 distribution sales centers with 13 locations throughout Texas and one location in Georgia. We have included the results of operations for Wickham in our Consolidated Financial Statements since the acquisition date. We finalized the purchase price allocations for our acquisition of Wickham during the third quarter of 2007.

Note 3 - Goodwill and Other Intangible Assets

In October 2008, we performed our annual goodwill impairment test. As a result of this test, we determined that the goodwill attributed to one of our Ohio sales centers was impaired. Based on the current and projected economic conditions in this market and fixed cost obligations related to an unfavorable long-term lease for this sales center facility, we determined that the estimated fair value for this reporting unit was less than its carrying value. As a result, we performed additional impairment testing to determine the implied fair value of this reporting unit's goodwill. Since the implied fair value of goodwill was less than the carrying value, we wrote off the \$0.4 million goodwill balance related to this reporting unit. This impairment expense is recorded in selling and administrative expenses on the Consolidated Statements of Income.

We have 199 reporting units with goodwill balances as of December 31, 2008. For these reporting units, the highest goodwill balance is \$7.1 million related to our United Kingdom reporting unit. We believe the remaining goodwill related to our sales centers is not impaired.

The changes in the carrying amount of goodwill are as follows (in thousands):

| | |
|-------------------|-----------|
| B a l a n c e a t | |
| December 31, 2006 | \$154,244 |
| Acquired goodwill | 585 |
| Purchase price | |
| adjustments, net | 418 |
| B a l a n c e a t | |
| December 31, 2007 | 155,247 |
| Acquired goodwill | 14,790 |
| Purchase price | |
| adjustments, net | (28) |
| G o o d w i l l |) |
| impairment | (440) |
| B a l a n c e a t | |
| December 31, 2008 | \$169,569 |

Purchase price adjustments represent final adjustments in 2008 for the Tor-Lyn Limited acquisition and in 2007 for the Wickham acquisition.

Other intangible assets consist of the following (in thousands):

| | December 31, | |
|--|--------------|-----------|
| | 2008 | 2007 |
| Horizon tradename (indefinite life) | \$ 8,400 | \$ 8,400 |
| NPT tradename (20 year life) | 1,500 | — |
| Non-compete agreements (5 year weighted average useful life) | 9,017 | 18,761 |
| Employment contracts (2.9 year weighted average useful life) | 1,000 | 1,000 |
| Distribution agreement (5 year useful life) | 6,115 | 6,115 |
| | 26,032 | 34,276 |
| Less accumulated amortization | (12,693) | (19,772) |
| | \$ 13,339 | \$ 14,504 |

The Horizon tradename has an indefinite useful life and is not subject to amortization. However, we evaluate the remaining useful life of this intangible asset and test for impairment periodically as required by SFAS 142. The NPT tradename, non-compete agreements, employment contracts and distribution agreement have finite useful lives and we amortize these agreements using the straight-line method over their respective useful lives. The useful lives for our non-compete agreements, employment contracts and distribution agreement are based on their contractual terms.

The employment contracts and distribution agreement intangibles were fully amortized as of December 31, 2008. During 2008, we wrote off three fully amortized non-compete agreements that totaled \$10.4 million. Other intangible amortization expense was \$3.4 million in 2008, \$4.5 million in 2007 and \$4.6 million in 2006.

The table below presents estimated amortization expense for other intangible assets for the next five years (in thousands):

| | | |
|------|----|-------|
| 2009 | \$ | 1,695 |
| 2010 | | 1,245 |
| 2011 | | 584 |
| 2012 | | 205 |
| 2013 | | 147 |

Note 4 - Details of Certain Balance Sheet Accounts

The table below presents additional information regarding certain balance sheet accounts (in thousands):

| | December 31, | |
|--|--------------|-----------|
| | 2008 | 2007 |
| Receivables: | | |
| Trade accounts | \$ 5,454 | \$ 21,281 |
| Trade accounts, pledged | 99,273 | 95,860 |
| Vendor incentives | 21,293 | 32,118 |
| Other | 3,252 | 1,796 |
| | 129,272 | 151,055 |
| Less allowance for doubtful accounts | (13,688) | (9,938) |
| | \$115,584 | \$141,117 |
| Property and equipment: | | |
| Land | \$ 1,631 | \$ 1,185 |
| Building | 2,145 | 1,716 |
| Leasehold improvements | 19,208 | 17,459 |
| Autos and trucks | 1,771 | 1,405 |
| Machinery and equipment | 20,393 | 20,065 |
| Computer equipment | 18,097 | 16,316 |
| Furniture and fixtures | 9,654 | 9,161 |
| Fixed assets in progress | 2,299 | 2,143 |
| | 75,198 | 69,450 |
| Less accumulated depreciation | (42,150) | (35,227) |
| | \$ 33,048 | \$ 34,223 |
| Other assets, net: | | |
| Non-current deferred income taxes | \$ 21,324 | \$ 17,275 |
| Other | 5,625 | 5,599 |
| | \$ 26,949 | \$ 22,874 |
| Accrued expenses and other current liabilities: | | |
| Salaries and bonuses | \$ 12,543 | \$ 13,867 |
| | 3,685 | 2,144 |

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| | | |
|--------------------------------|-----------|-----------|
| Current deferred tax liability | | |
| Other(1) | 45,473 | 21,205 |
| | \$ 61,701 | \$ 37,216 |

(1) The 2008 balance includes \$30.0 million of income taxes payable related to the deferral of estimated income tax payments as allowed by Internal Revenue Service Notice 2008-100, which was issued after Hurricane Gustav.

Note 5 - Debt

The components of our debt for the past two years were as follows (in thousands):

| | December 31, | |
|---|-------------------|-------------------|
| | 2008 | 2007 |
| Current portion: | | |
| Accounts Receivable Securitization Facility (described below) | \$ 20,792 | \$ 68,327 |
| Current portion of Term Loan | 6,000 | 3,000 |
| | 26,792 | 71,327 |
| Long-term portion: | | |
| Revolving Line of Credit, variable rate (described below) | 153,000 | 125,525 |
| Term Loan, variable rate (described below) | 48,000 | 54,000 |
| Floating Rate Senior Notes (described below) | 100,000 | 100,000 |
| | 301,000 | 279,525 |
| Total debt | \$ 327,792 | \$ 350,852 |

Unsecured Syndicated Senior Credit Facility

As amended on December 20, 2007, 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 \$60.0 million term loan (the Term Loan). The Term Loan matures on December 20, 2010 and the Revolver matures on December 20, 2012. The Credit Facility includes sublimits for the issuance of swingline loans and standby or trade 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.

At December 31, 2008, there was \$153.0 million outstanding and \$86.3 million available for borrowing under the Revolver. The weighted average effective interest rate of the Revolver was approximately 4.2% for the year ended December 31, 2008.

Borrowings under the Revolver bear interest, at our option, at either of the following:

- a. a base rate, which is the greater of (i) the prime rate or (ii) the overnight Federal Funds Rate plus 0.500%; plus a spread ranging from 0% to 0.250% depending on our leverage ratio; or
- b. the London Interbank Offered Rate (LIBOR) plus a spread ranging from 0.500% to 1.250 depending on our leverage ratio.

Borrowings under the Term Loan bear interest, at our option, at either of the following:

- a. a base rate, which is the greater of (i) the Wachovia Bank, National Association prime rate or (ii) the overnight Federal Funds Rate plus 0.500%; or
- b. LIBOR plus a spread ranging from 0.625% to 0.750% depending on our leverage ratio.

We are also required to pay the following amounts under the Credit Facility:

- a. an annual facility fee of 0.125% to 0.300% depending on our leverage ratio;
- b. an annual letter of credit issuance fee of 0.125% multiplied by the face amount of each letter of credit; and
- c. a letter of credit commission of 0.500% to 1.250% multiplied by face amount of each letter of credit, depending on our leverage ratio.

At December 31, 2008, there was \$54.0 million outstanding under the Term Loan. Our scheduled quarterly principal installments on the Term Loan began on March 31, 2007. Future payments on the Term Loan will be \$6.0 million in 2009 and \$48.0 million in 2010. The weighted average effective interest rate of the Term Loan was approximately 5.7% for the year ended December 31, 2008. See discussion of our interest rate swaps below.

Our obligations under the Credit Facility are guaranteed by all of our existing and future direct and indirect domestic subsidiaries. The Credit Facility contains terms and provisions (including representations, covenants and conditions) and events of default customary for transactions of this type. If an event of default occurs and is continuing under the Credit Facility, the lenders may terminate their obligations under the Credit Facility and may require us to repay all amounts.

Floating Rate Senior Notes

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. The Notes have scheduled quarterly interest payments that are due on February 12, May 12, August 12 and November 12 of each year. The Notes are unsecured and are guaranteed by each domestic subsidiary that is or becomes a borrower or guarantor under our Credit Facility. In the event we have a change of control, the holders of the Notes will have the right to put the Notes back to us at par. We used the net proceeds from the placement to pay down borrowings under the Revolver. See discussion of our interest rate swaps below.

Accounts Receivable Securitization Facility

In May 2008, we renewed our accounts receivable securitization facility (the Receivables Facility) for one year through May 2009. Effective September 2008, the Receivables Facility provided a borrowing capacity of up to \$95.0 million. For a discussion of amendments we made to the Receivables Facility on January 15, 2009, see Note 14.

The Receivables Facility provides for the true sale of certain of our receivables as they are created to a wholly owned, bankruptcy-remote subsidiary. This subsidiary grants an undivided security interest in the receivables to an unrelated commercial paper conduit. Because of the structure of the bankruptcy-remote subsidiary and our ability to control its activities, we include the transferred receivables and related debt in our Consolidated Balance Sheets. We employed this arrangement because it provides us with a lower cost form of financing. At December 31, 2008, there was \$20.8 million outstanding under the Receivables Facility at a weighted average effective interest rate of 3.8%.

Interest Rate Swaps

In December 2005, we entered into an interest rate swap agreement to reduce our exposure to fluctuations in interest rates on the Term Loan. This swap agreement terminated on December 31, 2008. In March 2008, we entered into a separate interest rate swap agreement to reduce our exposure to fluctuations in interest rates for the remaining outstanding period of the Term Loan. The swap agreement converts the Term Loan's variable interest rate to a fixed rate of 2.4% on the initial notional amount, which will decrease as payments are made on the Term Loan until maturity on December 20, 2010. This swap has an effective date of December 31, 2008.

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 variable interest rate to a fixed rate of 5.088% on the initial notional amount of \$100.0 million, which will decrease to a notional amount of \$50.0 million in 2010. This swap agreement terminates on February 12, 2012. Including the 0.600% spread, we expect to pay an effective interest rate on the Notes of approximately 5.688%.

We record any differences paid or received on our interest rate swaps as adjustments 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). During the year ended December 31, 2008, no gains or

losses were recognized on these swaps and there was no effect on income from hedge ineffectiveness. The net difference between interest paid and interest received related to the swap agreements resulted in a \$2.3 million increase interest expense. At December 31, 2008, the combined fair value of the swap agreements was an \$8.5 million unrealized loss and is included in Accrued expenses and other current liabilities on the Consolidated Balance Sheet.

Failure of our swap counterparty 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 counterparty 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.

Financial and Other Covenants

Financial covenants on our amended Credit Facility, the Notes and the Receivables Facility are closely aligned and include a minimum fixed charge coverage ratio and maintenance of a maximum average total leverage ratio, which are our most restrictive covenants. Other covenants include restrictions on our ability to, among other things, pay dividends or make other capital distributions (other than in accordance with our current dividend policy). The Credit Facility also limits the declaration and payment of dividends on our common stock to no more than 50% of the preceding year's net income, provided that we are not in default or no event of default has occurred and the dividends are declared and paid in a manner consistent with our past practice.

As of December 31, 2008, we were in compliance with all covenants and financial ratio requirements related to our Credit Facility, our Notes and our Receivables Facility.

Deferred Financing Costs

We capitalize financing costs we incur related to implementing and amending our debt. We record these costs as Other assets on our Consolidated Balance Sheets and amortize them over the contractual life of the related debt. The changes in deferred financing costs are as follows (in thousands):

| | 2008 | 2007 |
|-------------------------------|----------|----------|
| Balance at beginning of year | \$ 2,008 | \$ 856 |
| Financing costs deferred | 56 | 1,152 |
| Balance at end of year | 2,064 | 2,008 |
| Less accumulated amortization | (835) | (469) |
| | \$ 1,229 | \$ 1,539 |

Note 6 - Comprehensive Income

Comprehensive income includes net income, foreign currency translation adjustments and the unrealized gain or loss on interest rate swaps. Total comprehensive income for the past three years (in thousands) was:

| 2008 | 2007 | 2006 |
|-----------|-----------|-----------|
| \$ 46,866 | \$ 70,883 | \$ 99,100 |

Accumulated other comprehensive income (loss) as presented on the Consolidated Balance Sheets consists of the following components (in thousands):

| Foreign Currency Translation | Unrealized Gain (Loss) on Interest | Total |
|------------------------------------|---|-------|
|------------------------------------|---|-------|

| | Rate Swaps (1) | | |
|----------------------|----------------|-----------|----------|
| B a l a n c e a t | | | |
| December 31, 2006 \$ | 6,094 \$ | 121 \$ | 6,215 |
| Net change | 4,042 | (2,553) | 1,489 |
| B a l a n c e a t | | | |
| December 31, 2007 | 10,136 | (2,432) | 7,704 |
| Net change | (7,315) | (2,775) | (10,090) |
| B a l a n c e a t | |) |) |
| December 31, 2008 \$ | 2,821 \$ | (5,207 \$ | (2,386 |

(1) Amounts are shown net of tax.

Note 7 - Share-Based Compensation

Share-Based Plans

We award stock options and restricted stock to our employees and non-employee directors under our stock option plans.

Current Plan

In May 2007, our stockholders approved the 2007 Long-Term Incentive Plan (the 2007 LTIP), which authorizes the Compensation Committee of our Board of Directors (the Board) to grant non-qualified stock options and restricted stock to employees, directors, consultants or advisors. The 2007 LTIP has replaced the 2002 Plan and the Director Plan, both of which are discussed below. No more than 1,515,000 shares may be issued under the 2007 LTIP. Granted stock options have an exercise price equal to our stock's closing market price on the date of grant. Depending on an employee's length of service with the Company, these options generally vest either five years from the grant date or on a three/five year split vest schedule, where half of the options vest three years from the grant date and the remainder vest five years from the grant date. These options expire ten years from the grant date. Restricted stock awarded under the 2007 LTIP is issued at no cost to the grantee and is subject to vesting restrictions. The restricted stock awards generally vest either one year from the grant date for awards to directors or five years from the grant date for all other awards.

Preceding Plans

In May 2002, our stockholders approved the 2002 Long-Term Incentive Plan (the 2002 Plan), which authorized the Board to grant stock options and restricted stock awards to employees, agents, consultants or independent contractors. In May 2004, our stockholders approved an amendment to increase the number of shares authorized for issuance under the 2002 Plan from 1,575,000 to 2,700,000 shares. Granted options have an exercise price equal to our stock's market price on the grant date. These options generally vest either five years from the grant date or on a three/five year split vest schedule, where half of the options vest three years from the grant date and the remainder vest five years from the grant date. These options expire ten years from the grant date. In May 2007, the Board suspended the 2002 Plan. Options granted prior to the suspension were not affected by this action.

The SCP Pool Corporation Non-Employee Directors Equity Incentive Plan (the Director Plan) permitted the Board to grant stock options to each non-employee director. No more than 1,350,000 shares were authorized to be issued under this plan. Granted options have an exercise price equal to our stock's market price on the grant date. The options generally may be exercised one year after the grant date, and they expire ten years after the grant date. The Director Plan expired during 2006.

In May 1998, our stockholders approved the 1998 Stock Option Plan (the 1998 Plan), which authorized the Board to grant stock options, stock appreciation rights, restricted stock and performance awards to employees, agents, consultants or independent contractors. These options generally were exercisable three or more years after the grant date, and they expire ten years after the grant date. In May 2002, the Board suspended the 1998 Plan. Options granted prior to the suspension were not affected by this action.

Under the 1995 Stock Option Plan (the 1995 Plan) the Board was authorized to grant stock options to employees, agents, consultants or independent contractors. These options generally were exercisable two years after the grant date, and they expired ten years from the grant date. In May 1998, the Board suspended the 1995 Plan. Options granted prior to the suspension were not affected by this action. As of December 31, 2008, all options granted under the 1995 Plan have been exercised or cancelled.

Stock Option Awards

The following is a summary of the stock option activity under our stock option plans for the year ended December 31, 2008:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value |
|----------------------------------|-------------|---------------------------------|---|---------------------------|
| Balance at December 31, 2007 | 5,877,365 | \$ 17.05 | | |
| Granted | 935,051 | 20.40 | | |
| Exercised | (1,057,760) | 5.05 | | |
| Forfeited | (199,070) | 27.85 | | |
| Balance at December 31, 2008 | 5,555,586 | \$ 19.51 | 5.07 | \$21,989,946 |
| Exercisable at December 31, 2008 | 3,174,998 | \$ 12.73 | 3.12 | \$21,989,946 |

The table below summarizes information about stock options outstanding and exercisable at December 31, 2008:

| Range of exercise prices | Outstanding Stock Options | | | Exercisable Stock Options | |
|--------------------------|---------------------------|---|---------------------------------|---------------------------|---------------------------------|
| | Shares | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| \$ 0.00 to \$ 5.99 | 646,297 | 1.11 | \$ 4.30 | 646,297 | \$ 4.30 |
| \$ 6.00 to \$ 11.99 | 1,441,551 | 3.04 | 10.79 | 1,441,551 | 10.79 |
| \$ 12.00 to \$ 17.99 | 572,527 | 3.17 | 13.08 | 572,527 | 13.08 |
| \$ 18.00 to \$ 23.99 | 1,404,144 | 7.58 | 20.90 | 211,506 | 21.67 |
| \$ 24.00 to \$ 29.99 | 36,500 | 5.52 | 26.74 | 12,750 | 26.91 |
| \$ 30.00 to \$ 47.30 | 1,454,567 | 7.14 | 35.94 | 290,367 | 33.28 |
| | 5,555,586 | 5.07 | \$ 19.51 | 3,174,998 | \$ 12.73 |

The following table summarizes the cash proceeds and tax benefits realized from the exercise of stock options:

| (In thousands, except share amounts) | Year Ended December 31, | | |
|--------------------------------------|-------------------------|-----------|-----------|
| | 2008 | 2007 | 2006 |
| Options exercised | 1,057,760 | 838,746 | 1,072,286 |
| Cash proceeds | \$ 5,339 | \$ 6,061 | \$ 5,287 |
| | \$ 14,312 | \$ 24,457 | \$ 39,921 |

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| | | | | |
|--------------------------------------|----|-------|----|--------|
| Intrinsic value of options exercised | | | | |
| Tax benefits realized | \$ | 5,619 | \$ | 9,443 |
| | | | \$ | 15,414 |

We estimated the fair value of employee stock option awards at the grant date based on the assumptions summarized in the following table:

| (Weighted average) | Year Ended December 31, | | |
|-------------------------|-------------------------|-----------|-----------|
| | 2008 | 2007 | 2006 |
| Expected volatility | 31.0% | 29.6% | 30.8% |
| Expected term | 6.7 years | 6.5 years | 6.0 years |
| Risk-free interest rate | 3.17% | 4.49% | 4.33% |
| Expected dividend yield | 1.0% | 1.0% | 1.0% |
| Grant date fair value | \$ 6.89 | \$ 12.99 | \$ 13.27 |

We calculated expected volatility over the expected term of the awards based on our historical volatility. We use weekly price observations for our historical volatility calculation because we believe that they provide the most appropriate measurement of volatility given the trading patterns of our common stock. We estimated the expected term based on the vesting period of the awards and our historical exercise activity for awards with similar characteristics. The risk-free interest rate is based on the U.S. Treasury zero-coupon issues with a remaining term approximating the expected term of the option. We determined the expected dividend yield based on the anticipated dividends over the expected term.

For purposes of recognizing share-based compensation expense, we ratably expense the estimated fair value of employee stock options over the options' requisite service period. Generally, the requisite service period for our share-based awards is the vesting period. We recognize compensation cost for awards with graded vesting using the graded vesting recognition method.

The table below presents the total share-based compensation expense for stock option awards and the related recognized tax benefits for the past three years (in thousands):

| | 2008 | 2007 | 2006 |
|----------------------------------|----------|----------|----------|
| Share-based compensation expense | \$ 5,721 | \$ 5,875 | \$ 6,554 |
| Recognized tax benefits | 2,246 | 2,268 | 2,525 |

At December 31, 2008, the unamortized compensation expense related to stock option awards totaled \$8.6 million, which will be recognized over a weighted average period of 2.2 years. In 2006, we modified certain stock option agreements to reflect the proper grant dates and exercise prices. There was no material impact related to the modification of these stock option agreements. As such, we did not recognize any additional share-based compensation expense.

Restricted Stock Awards

The following is a summary of the restricted stock awards activity under our stock option plans for the year ended December 31, 2008:

| | Shares | Weighted Average Grant Date Fair Value |
|---------------------------------------|----------|---|
| Balance unvested at December 31, 2007 | 109,801 | \$ 30.58 |
| Granted (at market price) | 11,348 | 21.15 |
| Vested | (20,326) | 37.85 |
| Forfeited | (6,000) | 37.85 |
| Balance unvested at December 31, 2008 | 94,823 | \$ 27.43 |

The restricted stock awards generally vest one year from the grant date for awards to directors and five years from the grant date for other awards. At December 31, 2008, the unamortized compensation expense related to the restricted stock awards totaled \$0.7 million, which will be recognized over a weighted average period of 0.9 years.

The table below presents the total number of restricted stock awards that vested for the past three years and the related fair value of those awards (in thousands, except share amounts):

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| | 2008 | 2007 | 2006 |
|--|--------|-------|-------|
| Shares vested | 20,326 | 2,500 | 2,500 |
| Fair value of restricted stock awards vested | \$ 344 | \$ 91 | \$ 94 |

The table below presents the total share-based compensation expense for restricted stock awards for the past three years (in thousands):

| | 2008 | 2007 | 2006 |
|----------------------------------|--------|----------|--------|
| Share-based compensation expense | \$ 809 | \$ 1,321 | \$ 247 |

Employee Stock Purchase Plan

In March 1998, the Board adopted the SCP Pool Corporation Employee Stock Purchase Plan (the ESPP). Under our ESPP, employees who meet minimum age and length of service requirements may purchase stock at 85% of the lower of:

- the closing price of our common stock at the end of a six month plan period ending either June 30 or December 31; or
- the average of the beginning and ending closing prices of our common stock for such six month period.

No more than 956,250 shares of our common stock may be issued under our ESPP. For the two plan periods in each year presented below, we awarded the following aggregate share amounts:

| | 2008 | 2007 | 2006 |
|--|--------|--------|--------|
| | 65,052 | 50,424 | 49,666 |

The grant date fair value for the most recent ESPP purchase period ended December 31, 2008 was \$2.99 per share. Share-based compensation expense related to our ESPP was \$0.2 million in 2008, \$0.2 million in 2007 and \$0.4 million in 2006.

Note 8 - Income Taxes

Income before income taxes and equity earnings (loss) is attributable to the following jurisdictions (in thousands):

| | Year Ended December 31, | | |
|--------------------|-------------------------|------------|------------|
| | 2008 | 2007 | 2006 |
| U n i t e d States | \$ 93,854 | \$ 107,853 | \$ 147,345 |
| Foreign | 2,710 | 3,773 | 4,841 |
| Total | \$ 96,564 | \$ 111,626 | \$ 152,186 |

The provision for income taxes consisted of the following (in thousands):

| | Year Ended December 31, | | |
|-----------------|-------------------------|-----------|-----------|
| | 2008 | 2007 | 2006 |
| Current: | | | |
| Federal | \$ 32,743 | \$ 41,040 | \$ 49,603 |
| State and other | 6,262 | 6,471 | 8,812 |
| | 39,005 | 47,511 | 58,415 |
| Deferred: | | | |
| Federal | (992) | (4,005) | 362 |

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| | | | |
|-----------|-----------|-----------|-----------|
| State and |) |) |) |
| other | (102 | (352 | (18 |
| | (1,094) | (4,357) | 344 |
| Total | \$ 37,911 | \$ 43,154 | \$ 58,759 |

We made payments related to income taxes totaling \$8.6 million in 2008 and \$30.5 million in 2007. We deferred our third and fourth quarter 2008 estimated federal tax payments of \$30.0 million until January 2009 as allowed by Internal Revenue Service Notice 2008-100, which was issued following Hurricane Gustav.

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A reconciliation of the U.S. federal statutory tax rate to our effective tax rate on income before income taxes and equity earnings (loss) is as follows:

| | Year Ended December 31, | | |
|--|-------------------------|--------|--------|
| | 2008 | 2007 | 2006 |
| Federal statutory rate | 35.00% | 35.00% | 35.00% |
| Other, primarily state income tax rate | 4.26 | 3.66 | 3.61 |
| Total effective tax rate | 39.26% | 38.66% | 38.61% |

In 2008, we recorded a \$1.1 million reduction in the deferred tax liability related to our equity losses in LAC. In 2007, we recorded a deferred tax liability of \$0.6 million related to our equity earnings in LAC. These amounts are not reflected in the tables above.

The components of the deferred tax assets and liabilities are as follows (in thousands):

| | December 31, | |
|--|--------------|----------|
| | 2008 | 2007 |
| Deferred tax assets: | | |
| Product inventories | \$ 8,727 | \$ 6,417 |
| Accrued expenses | 1,358 | 1,418 |
| Allowance for doubtful accounts | 1,823 | 1,304 |
| Total current | 11,908 | 9,139 |
| Leases | 1,447 | 1,206 |
| Share-based compensation | 13,789 | 12,155 |
| Depreciation | — | 135 |
| Uncertain tax positions | 1,244 | 1,062 |
| Net operating losses | 2,159 | 1,082 |
| Interest rate swaps | 3,260 | 1,529 |
| Other | 1,584 | 1,188 |
| | 23,483 | 18,357 |
| Less: Valuation allowance | (2,159) | (1,082) |
| Total non-current | 21,324 | 17,275 |
| Total deferred tax assets | 33,232 | 26,414 |
| Deferred tax liabilities: | | |
| Trade discounts on purchases | 2,540 | 716 |
| Prepaid expenses | 1,145 | 1,428 |
| Total current | 3,685 | 2,144 |
| Intangible assets, primarily goodwill | 18,071 | 15,188 |
| Depreciation | 538 | — |
| Equity earnings (loss) in unconsolidated investments | 1,423 | 2,526 |
| Total non-current | 20,032 | 17,714 |

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| | | |
|--------------------------------|----------|----------|
| Total deferred tax liabilities | 23,717 | 19,858 |
| Net deferred tax asset | \$ 9,515 | \$ 6,556 |

At December 31, 2008, certain of our international subsidiaries had tax loss carryforwards totaling approximately \$7.0 million, which expire in various years after 2009. Deferred tax assets related to the tax loss carryforwards of these international subsidiaries were \$2.2 million as of December 31, 2008 and \$1.1 million as of December 31, 2007. We have recorded a corresponding valuation allowance of \$2.2 million and \$1.1 million in the respective years.

As presented in the Consolidated Statements of Cash Flows, the change in deferred income taxes includes, among other items, the change in deferred income taxes related to the deferred income tax provision, the change in deferred income taxes related to our equity loss in unconsolidated investments and the change in deferred income taxes related to the estimated tax impact of accumulated other comprehensive income (loss).

We reduce federal and state income taxes payable by the tax benefits associated with the exercise of nonqualified stock options. We receive an income tax benefit based on the difference between the option exercise price and the fair market value of the stock at the time the option is exercised. To the extent realized tax deductions for option exercises exceed the amount of previously recognized deferred tax benefits related to share-based compensation for these option awards, we record an excess tax benefit in stockholders' equity. We recorded excess tax benefits of \$4.5 million in 2008 and \$8.5 million in 2007.

As of December 31, 2008, United States income taxes were not provided on earnings of our foreign subsidiaries, as we have invested or expect to invest the undistributed earnings indefinitely. If in the future these earnings are repatriated to the United States, or if we determine that the earnings will be remitted in the foreseeable future, additional income tax provisions may be required.

We hold, through our affiliates, cash balances in the countries in which we operate, including significant amounts held outside the United States. Most of the amounts held outside the United States could be repatriated to the United States, but, under current law, may be subject to United States federal income taxes, less applicable foreign tax credits. Repatriation of some foreign balances is restricted by local laws including the imposition of withholding taxes in some jurisdictions. We have not provided for the United States federal tax liability on these amounts and for financial statement purposes, these foreign cash balances are considered indefinitely reinvested outside the United States.

The following is a summary of the activity related to uncertain tax positions for the year ended December 31, 2008 (in thousands):

| | |
|---|---------|
| Balance at December 31, 2007 | \$3,538 |
| Increases for tax positions taken during a prior period | 149 |
| Increases for tax positions taken during the current period | 928 |
| Decreases resulting from the expiration of the statute of limitations | (296) |
| Decreases relating to settlements | (432) |
| Balance at December 31, 2008 | \$3,887 |

As discussed in Note 1, we adopted FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, we recognized a reduction of approximately \$0.5 million to the January 1, 2007 retained earnings balance.

The total amount of unrecognized tax benefits that, if recognized, would decrease the effective tax rate was \$2.5 million at December 31, 2008 and \$2.3 million at December 31, 2007.

Effective January 1, 2007, in connection with the adoption of FIN 48, we changed our accounting policy and now recognize accrued interest related to unrecognized tax benefits in interest expense and recognize penalties in selling and administrative expenses. These amounts were previously classified as a component of income tax expense. We had approximately \$0.6 million in accrued interest at December 31, 2008 and approximately \$0.4 million at December 31, 2007.

We file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2005. We anticipate that the accounting under the provisions of FIN 48 may provide for greater volatility in our effective tax rate as items are derecognized or as we record changes in measurement in interim periods.

Note 9 - Earnings Per Share

The table below presents the reconciliation of basic and diluted weighted average number of shares outstanding (in thousands):

| | Year Ended December 31, | | |
|---|-------------------------|-----------|-----------|
| | 2008 | 2007 | 2006 |
| Net income | \$ 56,956 | \$ 69,394 | \$ 95,024 |
| Weighted average common shares outstanding: | | | |
| Basic | 47,758 | 48,887 | 51,866 |
| Effect of dilutive securities: | | | |
| Stock options | 622 | 1,848 | 2,758 |
| Restricted stock awards | 59 | 62 | 30 |
| Employee stock purchase plan | 5 | 5 | 8 |
| Diluted | 48,444 | 50,802 | 54,662 |

The weighted average diluted shares outstanding for the years ended December 31, 2008 and December 31, 2007 exclude stock options to purchase 2,888,211 and 1,077,375 shares, respectively. Since these options have exercise prices that are higher than the average market price of our common stock, including them in the calculation would have an anti-dilutive effect on earnings per share for the respective periods. There were no anti-dilutive stock options excluded from the earnings per share calculation for the year ended December 31, 2006.

Note 10 - Commitments and Contingencies

We lease facilities for our corporate office, sales centers, vehicles and equipment under operating leases that expire in various years through 2027. Most of our leases contain renewal options, some of which involve rate increases. For leases with step rent provisions whereby the rental payments increase incrementally over the life of the lease, we recognize the total minimum lease payments on a straight-line basis over the minimum lease term. The table below presents rent expense associated with operating leases for the past three years (in thousands):

| 2008 | 2007 | 2006 |
|-----------|-----------|-----------|
| \$ 67,043 | \$ 62,673 | \$ 54,517 |

The table below sets forth the approximate future minimum lease payments as of December 31, 2008 related to non-cancelable operating leases and the non-cancelable portion of certain vehicle operating leases with initial terms of one year or more (in thousands):

| | |
|------------|--------|
| 2009 | 51,022 |
| 2010 | 42,324 |
| 2011 | 33,574 |
| 2012 | 27,290 |
| 2013 | 18,132 |
| Thereafter | 29,627 |

From time to time, we are subject to various claims and litigation arising in the ordinary course of business, including product liability, personal injury, commercial, contract and employment matters. While the outcome of any litigation

is inherently unpredictable, we do not believe, based on currently available facts, that the ultimate resolution of any of these matters will have a material adverse impact on our financial condition, results of operations or cash flows.

Note 11 - Related Party Transactions

In May 2005, we acquired a 50% membership interest in NCC through a \$1.1 million cash contribution. NCC owns and operates an office building in Covington, Louisiana. We lease corporate and administrative offices from NCC, occupying approximately 50,000 square feet of office space. We amended the lease agreement in May 2005. The amended agreement has a ten year term. As of December 31, 2008, we pay rent of \$67,342 per month.

In January 2002, we entered into a lease agreement with S&C Development, LLC for additional warehouse space adjacent to our Mandeville sales center. The sole member of S&C Development, LLC is A. David Cook, a POOL executive officer. The original five year lease term commenced on February 4, 2002, and the current renewal covers a term of seven years and will expire on December 31, 2013. As of December 31, 2008, we pay rent of \$4,985 per month for the 8,600 square foot space.

In January 2001, we entered into a lease agreement with S&C Development, LLC for a sales center facility in Oklahoma City, Oklahoma. The ten year lease term commenced on November 10, 2001 and will expire on November 30, 2011. As of December 31, 2008, we pay rent of \$12,995 per month for the 25,000 square foot facility.

In March 1997, we entered into a lease agreement with Kenneth St. Romain for a sales center facility in Baton Rouge, Louisiana. Kenneth St. Romain is a POOL Group Vice President. We extended this lease for a third term of five years, which commenced on March 1, 2007 and will expire on February 28, 2012. As of December 31, 2008, we pay rent of \$10,758 per month for the 23,500 square foot facility.

In May 2001, we entered into a lease agreement with Kenneth St. Romain for a sales center facility in Jackson, Mississippi. The original seven year lease term commenced on November 16, 2001. The current five year lease renewal commenced on December 1, 2008 and will expire on November 30, 2013. As of December 31, 2008, we pay rent of \$9,360 per month for the 20,000 square foot facility.

In October 1999, we entered into a lease agreement with S&C Development, LLC for a sales center facility in Mandeville, Louisiana. In November 2007, S&C Development, LLC sold this facility to an unrelated third party and we executed a lease with the new landlord.

The table below presents rent expense associated with these leases for the past three years (in thousands):

| | 2008 | 2007 | 2006 |
|-------|----------|----------|--------|
| NCC | \$ 807 | \$ 795 | \$ 436 |
| Other | 457 | 522 | 516 |
| Total | \$ 1,264 | \$ 1,317 | \$ 952 |

Note 12 - Employee Benefit Plans

We offer a 401(k) savings and retirement plan, which provides benefits for substantially all employees who meet minimum age and length of service requirements. Eligible employees are able to contribute up to 75% of their compensation, subject to the federal dollar limit. For plan participants, we provide a matching contribution. As of January 1, 2007, we contribute a total match on employee contributions of up to 4% of their compensation, with a 100% match on the first 3% of compensation deferred and a 50% match on deferrals between 3% and 5% of compensation.

Effective March 1, 2005, we adopted the Pool Corp Deferred Compensation Plan, a nonqualified deferred compensation plan. The plan allows certain employees who occupy key management positions to defer salary and bonus amounts, and provides a matching contribution similar to that provided under our 401(k) plan to the extent that a participant's contributions to the 401(k) plan are limited by IRS non-discrimination limitations. The total Company matching contribution provided to a participant under the 401(k) plan and the Pool Corp Deferred Compensation Plan combined for any one year may not exceed 4% of a participant's salary and bonus.

The employee and Company sponsored contributions are invested in certain equity and fixed income securities based on individual employee elections.

The table below sets forth our matching contributions for the past three years (in thousands):

| | 2008 | 2007 | 2006 |
|---|---------|---------|---------|
| Matching contributions 401(k) | \$3,703 | \$3,497 | \$3,043 |
| Matching contributions deferred compensation plan | 15 | 32 | 125 |

Note 13 - Quarterly Financial Data (Unaudited)

The table below summarizes the unaudited quarterly operating results of operations for the past two years (in thousands, except per share data):

| | Quarter | | | | | | | |
|----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 2008 | | | | 2007 | | | |
| | First | Second | Third | Fourth | First | Second | Third | Fourth |
| Net sales | \$338,215 | \$692,972 | \$493,530 | \$258,966 | \$373,706 | \$726,472 | \$527,434 | \$300,755 |
| Gross profit | 95,354 | 202,752 | 141,800 | 75,322 | 103,485 | 207,922 | 139,803 | 79,436 |
| Net income (loss) | (3,184) | 52,875 | 22,060 | (14,795) | 1,354 | 57,794 | 21,835 | (11,589) |
| Earnings (loss) per share: | | | | | | | | |
| Basic | \$ (0.07) | \$ 1.11 | \$ 0.46 | \$ (0.31) | \$ 0.03 | \$ 1.17 | \$ 0.45 | \$ (0.24) |
| Diluted | \$ (0.07) | \$ 1.09 | \$ 0.45 | \$ (0.31) | \$ 0.03 | \$ 1.12 | \$ 0.43 | \$ (0.24) |

The sum of basic and diluted earnings per share for each of the quarters may not equal the total basic and diluted earnings per share for the annual periods because of rounding differences and a difference in the way that

in-the-money stock options are considered from quarter to quarter under the requirements of SFAS 128, Earnings per Share.

Note 14 - Subsequent Event

On January 15, 2009, we amended our Receivables Facility. The amendment affects various terms of the existing Receivables Purchase Agreement, including increasing required loss reserves used in calculating the available funding amount, loosening the delinquency and default trigger ratios for our seasonally slower months of October through April and reducing the facility size from \$95.0 million to \$75.0 million. The maturity date of the Receivables Facility remains May 2009.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. 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 December 31, 2008, 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 December 31, 2008, our disclosure controls and procedures were effective.

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

Management's Report on Internal Control Over Financial Reporting

POOL's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Any evaluation or projection of effectiveness to future periods is also subject to risk that controls may become inadequate due to changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

POOL's management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this assessment, management has concluded that, as of December 31, 2008, POOL's internal control over financial reporting was effective.

The independent registered public accounting firm that audited the Consolidated Financial Statements included in Item 8 of this Form 10-K has issued a report on POOL's internal controls over financial reporting. This report appears below.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Pool Corporation

We have audited Pool Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Pool Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Pool Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Pool Corporation as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 of Pool Corporation, and our report dated March 2, 2009, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New Orleans, Louisiana

March 2, 2009

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Item 9B. Other Information

Not applicable.

PART III.

Item 10. Directors, Executive Officers and Corporate Governance

Incorporated by reference to POOL's 2009 Proxy Statement to be filed with the SEC.

Item 11. Executive Compensation

Incorporated by reference to POOL's 2009 Proxy Statement to be filed with the SEC.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Incorporated by reference to POOL's 2009 Proxy Statement to be filed with the SEC.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Incorporated by reference to POOL's 2009 Proxy Statement to be filed with the SEC.

Item 14. Principal Accounting Fees and Services

Incorporated by reference to POOL's 2009 Proxy Statement to be filed with the SEC.

PART IV.

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this report:

(1) Consolidated Financial Statements:

| | Page |
|---|------|
| <u>Report of Independent Registered Public Accounting Firm</u> | 37 |
| <u>Consolidated Statements of Income</u> | 38 |
| <u>Consolidated Balance Sheets</u> | 39 |
| <u>Consolidated Statements of Cash Flows</u> | 40 |
| <u>Consolidated Statements of Changes in Stockholders' Equity</u> | 42 |
| <u>Notes to Consolidated Financial Statements</u> | 43 |

(2) Financial Statement Schedules.

All schedules are omitted because they are not applicable or are not required or because the required information is provided in our Consolidated Financial Statements or accompanying Notes included in Item 8 of this Form 10-K.

(3) The exhibits listed in the Index to Exhibits.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 March 2, 2009.

POOL CORPORATION

By: /s/ WILSON B. SEXTON
Wilson B. Sexton, Chairman of the
Board and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities indicated on March 2, 2009.

| Signature: | Title: |
|---|--|
| /s/ WILSON B. SEXTON Wilson B. Sexton | Chairman of the Board and Director |
| /s/ MANUEL J. PEREZ DE LA MESA Manuel J. Perez de la Mesa | President, Chief Executive Officer and Director |
| /s/ MARK W. JOSLIN Mark W. Joslin | Vice President and Chief Financial Officer |
| /s/ MELANIE M. HOUSEY Melanie M. Housey | Corporate Controller and Chief Accounting Officer |
| /s/ ANDREW W. CODE Andrew W. Code | Director |
| /s/ JAMES J. GAFFNEY James J. Gaffney | Director |
| /s/ GEORGE T. HAYMAKER George T. Haymaker | Director |
| /s/ HARLAN F. SEYMOUR Harlan F. Seymour | Director |

/s/ ROBERT C. SLEDD

Robert C. Sledd

Director

/s/ JOHN E. STOKELY

John E. Stokely

Director

INDEX TO EXHIBITS

| No. | Description | Incorporated by Reference | | | |
|-------|--|---------------------------|---------|-----------|------------|
| | | Filed with this Form 10-K | Form | File No. | Date 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 |
| 10.1 | * SCP Pool Corporation 1995 Stock Option Plan | | S-1 | 33-92738 | 08/18/1995 |
| 10.2 | * Form of Individual Stock Option Agreement under 1995 Stock Option Plan. | | S-1 | 33-92738 | 08/18/1995 |
| 10.3 | * Amended and Restated Non-Employee Directors Equity Incentive Plan, | | 10-Q | 000-26640 | 08/13/2001 |
| 10.4 | as amended by Amendment No. 1. | | 10-Q | 000-26640 | 07/25/2002 |
| 10.5 | * SCP Pool Corporation 1998 Stock Option Plan. | | DEF 14A | 000-26640 | 04/08/1998 |
| 10.6 | * Form of Stock Option Agreement under 1998 Stock Option Plan. | | 10-K | 000-26640 | 03/31/1999 |
| 10.7 | * Amended and Restated SCP Pool Corporation Employee Stock Purchase Plan | | 10-Q | 000-26640 | 07/25/2002 |
| 10.8 | * Amended and Restated SCP Pool Corporation 2002 Long-Term Incentive Plan. | | 10-K | 000-26640 | 03/01/2005 |
| 10.9 | * Form of Stock Option Agreement under 2002 Long-Term Incentive Plan. | | 10-K | 000-26640 | 03/01/2005 |
| 10.10 | * Pool Corporation 2007 Long-Term Incentive Plan | | 8-K | 000-26640 | 05/11/2007 |
| 10.11 | * Form of Stock Option Agreement for Employees under the 2007 Long-Term Incentive Plan | | 8-K | 000-26640 | 05/11/2007 |
| 10.12 | * Form of Restricted Stock Agreement for Employees under the 2007 Long-Term Incentive Plan | | 8-K | 000-26640 | 05/11/2007 |

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| | | | | |
|--------|---|------|-----------|------------|
| 10.13* | Form of Stock Option Agreement for Directors under the 2007 Long-Term Incentive Plan | 8-K | 000-26640 | 05/11/2007 |
| 10.14* | Form of Restricted Stock Agreement for Directors under the 2007 Long-Term Incentive Plan | 8-K | 000-26640 | 05/11/2007 |
| 10.15* | Employment Agreement, dated January 25, 1999, among SCP Pool Corporation, South Central Pool Supply, Inc. and Manuel J. Perez de la Mesa. | 10-K | 000-26640 | 03/31/1999 |
| 10.16* | Employment Agreement, dated January 17, 2003, between SCP Distributors, LLC and A. David Cook. | 10-K | 000-26640 | 03/01/2005 |
| 10.17* | Employment Agreement, dated January 17, 2003, between SCP Distributors, LLC and Christopher W. Wilson. | 10-K | 000-26640 | 03/01/2005 |
| 10.18* | Employment Agreement, dated January 17, 2003, between SCP Distributors, LLC and Stephen C. Nelson. | 10-K | 000-26640 | 03/01/2005 |
| 10.19* | Compensation of Non-Employee Directors. | 10-K | 000-26640 | 03/07/2006 |
| 10.20* | Form of Indemnity Agreement for Directors and Officers. | 10-Q | 000-26640 | 10/29/2004 |

| | | Incorporated by Reference | | | |
|--------|---|---------------------------------------|------|-----------|------------|
| No. | Description | Filed with this Form 10-K | Form | File No. | Date Filed |
| 10.21 | Louisiana Tax Equalization Agreement. | | 10-Q | 000-26640 | 10/29/2004 |
| 10.22* | Tax Reimbursement Arrangement. | | 10-Q | 000-26640 | 07/30/2004 |
| 10.23 | Receivables Sale Agreement dated as of March 27, 2003, among SCP Distributors LLC, SCP Services LP and Superior Pool Products LLC, as Originators, and Superior Commerce LLC, as Buyer. | | 10-Q | 000-26640 | 04/30/2003 |
| 10.24 | Receivables Purchase Agreement dated as of March 27, 2003, among Superior Commerce, LLC, as Seller, SCP Distributors LLC, as Servicer, Jupiter Securitization Corporation and Bank One, NA (Main Office Chicago) as Agent, | | 10-Q | 000-26640 | 04/30/2003 |
| 10.25 | as amended by amendment dated as of March 25, 2004 | | 10-Q | 000-26640 | 04/30/2004 |
| 10.26 | Omnibus Amendment for Amendment No. 7 to Receivables Purchase Agreement and Amendment No. 2 to Receivables Sale Agreement, dated as of March 22, 2007, among SCP Distributors, LLC, Superior Pool Products, LLC, Horizon Distributors, Inc., Superior Commerce LLC, JPMorgan Chase Bank, N.A. f/k/a Bank One, NA (Main Office Chicago) and Jupiter Securitization Corporation | | 8-K | 000-26640 | 3/26/2007 |
| 10.27 | Amendment No. 8 to the Receivables Purchase Agreement, dated as of March 29, 2007. | | 10-Q | 000-26640 | 5/02/2007 |
| 10.28 | | | 10-K | 000-26640 | 2/29/2008 |

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|-------|--|------|-----------|------------|
| | Amendment No. 9 to the Receivables Purchase Agreement, dated as of August 10, 2007. | | | |
| 10.29 | Amendment No. 10 to the Receivables Purchase Agreement, dated as of December 20, 2007. | 10-K | 000-26640 | 2/29/2008 |
| 10.30 | Amendment No. 12 to the Receivables Purchase Agreement, dated as of May 20, 2008. | 8-K | 000-26640 | 5/23/2008 |
| 10.31 | Amendment No. 3 to the Receivables Sale Agreement, dated as of May 20, 2008. | 8-K | 000-26640 | 5/23/2008 |
| 10.32 | Intercreditor Agreement dated as of March 27, 2003, by and between Bank One, NA, as agent under the Credit Agreement, and Bank One, NA (Main Office Chicago), as agent under the Receivables Purchase Agreement. | 10-Q | 000-26640 | 04/30/2003 |
| 10.33 | Performance Undertaking dated as of March 27, 2003, by and between SCP Pool Corporation and Superior Commerce LLC. | 10-Q | 000-26640 | 04/30/2003 |
| 10.34 | Asset Exchange Agreement, dated as of November 12, 2004 by and among SCP Pool Corporation, Les Industries R.P. Inc. and Latham Acquisition Corp. | 10-K | 000-26640 | 03/01/2005 |
| 10.35 | Asset Contribution Agreement, dated as of November 12, 2004 by and among SCP Pool Corporation, Fort Wayne Pools, Inc and Latham Acquisition Corp. | 10-K | 000-26640 | 03/01/2005 |

| No. | Description | Incorporated by Reference | | | |
|-------|--|---------------------------|------|-----------|------------|
| | | Filed with this Form 10-K | Form | File No. | Date Filed |
| 10.36 | Subscription and Stockholders' Agreement, dated as of November 12, 2004, by and among Latham Acquisition Corp., Fort Wayne Pools, Inc., Brockway Moran & Partners Fund II, L.P. and Brockway Moran & Partners II. Co-Invest Fund, L.P | | 10-K | 000-26640 | 03/01/2005 |
| 10.37 | Lease (Mandeville Service Center) entered into as of October 19, 1999, by and between S&C Development Company, LLC and South Central Pool Supply, Inc, as amended by Lease Agreement Amendment No. One, entered into as of May 26, 2000, by and between S&C Development Company, LLC and South Central Pool Supply, Inc, | | 10-Q | 000-26640 | 07/30/2004 |
| 10.38 | as amended by the Second Amendment entered into as of January 16, 2007 by and between S&C Development Company, LLC and SCP Distributors, LLC, | | 10-K | 000-26640 | 03/01/2007 |
| 10.39 | as amended by Lease Agreement (Warehouse) entered into as of January 16, 2002, by and between S&C Development Company, LLC and SCP Distributors, LLC, as amended by First Amendment entered into as of February 11, 2002 by and between S&C Development Company, LLC and SCP Distributors, LLC, | | 10-Q | 000-26640 | 07/30/2004 |
| 10.40 | as amended by Second Amendment entered into as of January 16, 2007 by and | | 10-K | 000-26640 | 03/01/2007 |

| | | | | |
|--------|--|------|-----------|------------|
| | between S&C Development Company, LLC and SCP Distributors, LLC. | | | |
| 10.41 | Lease (Oklahoma Service Center) entered into as of January 15, 2001, by and between Dave Cook, individually and SCP Pool Corporation, as amended by First Amendment, entered into as of October 24, 2001 by and between S&C Development, LLC and SCP Pool Corporation, as amended by First Amendment, entered into, as of December 5, 2001 by and between S&C Development, LLC and SCP Pool Corporation. | 10-Q | 000-26640 | 07/30/2004 |
| 10.42* | Form of Stock Option Agreement under the Non-employee Directors Equity Incentive Plan. | 10-K | 000-26640 | 03/01/2005 |
| 10.43 | Nonqualified Deferred Compensation Plan Basic Plan Document, dated March 1, 2005. | 10-Q | 000-26640 | 04/29/2005 |
| 10.44 | Nonqualified Deferred Compensation Plan Adoption Agreement by an among SCP Distributors, L.L.C., Superior Pool Products, L.L.C. and Cypress, Inc., dated March 1, 2005 | 10-Q | 000-26640 | 04/29/2005 |

| No. | Description | Incorporated by Reference | | | |
|--------|--|---------------------------|------|-----------|------------|
| | | Filed with this Form 10-K | Form | File No. | Date Filed |
| 10.45 | Trust Agreement by and among SCP Distributors, L.L.C., Superior Pool Products, L.L.C. and Cypress, Inc. and T. Rowe Price Trust Company, dated March 1, 2005. | | 10-Q | 000-26640 | 04/29/2005 |
| 10.46 | Agreement and Plan of Merger by and among Automatic Rain Company, Horizon Distributors, Inc. and the Shareholder Parties, dated August 26, 2005. | | 8-K | 000-26640 | 10/04/2005 |
| 10.47 | Note Purchase Agreement by and among Pool Corporation and the Purchasers party thereto. | | 8-K | 000-26640 | 02/15/2007 |
| 10.48 | Subsidiary Guaranty by Pool Corporation in favor of the holders from time to time of the Notes. | | 8-K | 000-26640 | 02/15/2007 |
| 10.49* | Pool Corporation Executive Bonus Plan | | 10-K | 000-26640 | 03/01/2007 |
| 10.50 | 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 | 000-26640 | 02/29/2008 |
| 10.51 | | | 10-K | 000-26640 | 02/29/2008 |

| | | | | |
|-------------|---|------|-----------|------------|
| | Amended and Restated Subsidiary Guaranty Agreement dated as of December 20, 2007. | | | |
| 10.52* | 2008 Strategic Plan Incentive Program (SPIP) | 8-K | 000-26640 | 03/03/2008 |
| 14 | Code of Business Conduct and Ethics for Directors, Officers and Employees. | 10-K | 000-26640 | 03/01/2004 |
| <u>21.1</u> | Subsidiaries of the registrant. | X | | |
| <u>23.1</u> | Consent of Ernst & Young LLP. | X | | |
| <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 Sarbanes-Oxley Act of 2002. | X | | |

* Indicates a management contract or compensatory plan or arrangement

