POOL CORP
Form 10-K
March 01, 2010

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, 2009

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES x 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 x

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 x NO ¨

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

Indicate by check mark 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 x Accelerated filer ¨

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ¨ NOx

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, 2009 was $776,671,055.

As of February 22, 2010, the Registrant had 49,164,271 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 26, 2010 for the Annual Meeting to be held on May 4, 2010, 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 and one of the top three distributors of landscape and irrigation products in the United States. The Company was incorporated in the State of Delaware in 1993 and has grown from a regional distributor to a multi-national, multi-network distribution company.

Our industry is highly fragmented, and as such, we add considerable value to the industry by purchasing products from a large number of manufacturers and then distributing the products 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, 2009 we operated 287 sales centers in North America and Europe through our three distribution networks: SCP Distributors LLC (SCP), Superior Pool Products LLC (Superior) and Horizon Distributors, Inc. (Horizon). Superior and Horizon are both wholly owned subsidiaries of SCP, which is wholly owned by Pool Corporation.

Our Industry

We believe that the swimming pool industry is relatively young, with room for continued growth from increased penetration of new pools. Of the approximately 70 million homes in the United States that have the economic capacity and the yard space to have a swimming pool, approximately 13% 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 favorable demographic and socioeconomic trends have and will continue to positively impact the long-term prospects of our industry. These favorable trends include the following:

- long-term growth in housing units in warmer markets due to the population migration towards the south, which contributes to the growing installed base of pools that homeowners must maintain;
- increased homeowner spending on outdoor living spaces for relaxation and entertainment; and
- consumers bundling the purchase of a swimming pool and other products, with new irrigation systems and landscaping often being key components to both pool installations and remodels.

The irrigation and landscape industry 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.

Approximately 70% of consumer spending in the pool industry is derived from the maintenance of existing swimming pools. Maintaining proper chemical balance and the related upkeep and repair of swimming pool equipment, such as pumps, heaters, filters and safety equipment creates a non-discretionary demand for pool chemicals, equipment and other related parts and supplies. We also believe cosmetic considerations such as a pool's appearance and the overall look of backyard environments create an ongoing demand for other maintenance related goods and certain discretionary products.

We believe that the recurring nature of the maintenance and repair market has 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 such as 2006 through 2009.

The table below reflects growth in the domestic installed base of in-ground and above-ground swimming pools over the past 11 years (based on Company estimates and information from 2007 P.K. Data, Inc. reports):

The replacement and refurbish market includes major swimming pool repairs and currently accounts for approximately 20% of consumer spending in the pool industry. This activity is more sensitive to economic factors that impact consumer spending compared to the maintenance and minor repair market. New swimming pool construction comprises the bulk of the remaining consumer spending in the pool industry. The demand for new pools is driven by the perceived benefits of pool ownership including relaxation, entertainment, family activity, exercise and convenience. The industry competes for new pool sales against other discretionary consumer purchases such as kitchen and bathroom remodeling, boats, motorcycles, recreational vehicles and vacations.

The landscape and irrigation distribution business is split between residential and commercial markets, with the majority of sales related to the residential market. Landscape and irrigation maintenance activities account for 40% of total spending in the irrigation industry, with the remaining 60% of spending related to irrigation construction and other discretionary related products. As such, our irrigation business is more heavily weighted towards the sale of discretionary related products compared to our pool business.

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.

The continuing adverse economic trends that began in 2006 and worsened through 2009 have negatively impacted our industry and our performance. 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. The downturn in the real estate and credit markets that began in 2006 was compounded by the overall deterioration in general economic conditions in late 2008 and throughout 2009. These trends resulted in significant decreases in new construction activities, and we estimate that pool construction has declined approximately 80% since 2005. Pool refurbishment and replacement activities were also significantly impacted as consumers began to defer discretionary purchases as the economy worsened. The impact of these trends was more severe in 2007 and 2008 in some of the largest pool markets including California, Florida and Arizona, with a more recent adverse impact in Texas and other states.

Since irrigation is more heavily weighted towards new construction activities, this has resulted in a greater impact on our Horizon business as new home and commercial construction rates have fallen. We have consolidated several facilities and significantly reduced operating costs related to our Horizon network, and we expect these measures will mitigate the greater rate of earnings decline for our irrigation business.

We are encouraged by indications that the downward economic trends of the past several years are moderating, which is evidenced by the fact that the level of sales declines in the major pool markets first impacted by the negative external trends diminished as 2009 progressed. The landscape and irrigation markets that we participate in have not yet shown improvement as these markets tend to lag the trends in the corresponding pool markets by up to a year.

We believe there is potential for significant sales recovery over the next several years, driven by both the aging of the installed base of in-ground pools and pent-up demand for replacement and retrofit activity that consumers have deferred due to recent market conditions. We also anticipate that new pool and irrigation construction activities will gradually begin to return to more normalized levels, but we expect the replacement and refurbish market will rebound before the new construction market and believe it may be 2011 before there is growth in new construction activities. We expect that sales levels should once again benefit from long-term industry growth dynamics and that over the long-term the industry will return to an annual growth rate of approximately 2% to 6% when the overall economy does rebound 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 that above average precipitation, late spring thaws in northern markets and other extreme weather conditions delay, interrupt or cancel current or planned construction and installation activities.

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.com™ 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 by offering comprehensive support programs that include promotional tools and marketing support to help our customers generate increased sales. Our uniquely tailored programs include such features as customer lead generation, personalized websites, brochures, 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) . We launched The Backyard Place® program in 2006 and we currently have over 120 agreements with retail store customers. Our total sales to these customers grew 15% in 2009 compared to 2008.

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, new sales center openings and expansions of existing sales centers. Historically, acquisitions have been an important source of sales growth.

Since 2005, we have opened 18 new sales centers (net of subsequent closings and consolidations of new sales centers) and successfully completed 9 acquisitions consisting of 74 sales centers (net of sales center closings and consolidations within one year of acquisition). Given the current challenging external environment, we did not open any new sales centers in 2009 and expect to open only two new sales centers in 2010. We plan to continue to selectively expand our domestic swimming pool distribution networks and to take advantage of opportunities to further expand our domestic irrigation and international swimming pool distribution networks via both acquisitions and new sales center openings. We plan to make strategic acquisitions to further penetrate existing markets and expand into both new geographic markets and new product categories. For additional discussion of our recent acquisitions, see Note 2 of "Notes to Consolidated Financial Statements," included in Item 8 of this Form 10-K.

Based upon industry data, we believe our industry grew at a 2% to 6% annual rate for the period between 2000 and 2005 but contracted each year between 2006 and 2009. Historically, our sales growth has exceeded the industry's growth rates and allowed us to increase market share. We believe that our high service levels and expanded product offerings have also enabled us to gain market share during the past four years as our industry contracted. Going forward, we expect to realize sales growth higher than the industry average due to increases in market share and further expansion of our product offerings.

We estimate that pricing inflation has averaged 1% to 3% annually in our industry over the past 10 years. In 2010, we do not expect industry price increases after experiencing above average inflationary increases in product costs in 2008 and 2009. We generally pass industry price increases through the supply chain and make strategic volume inventory purchases ahead of vendor price increases. Based on the volume inventory purchases we made ahead of vendor price increases in the second half of 2008, we realized a favorable impact to gross margin in the first half of 2009. Since there were no similar late season vendor price increases in 2009, we expect tough gross margin comparisons to 2009 in the first half of 2010.

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 three years.

We conduct our operations through over 280 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 51% of our net sales in 2009. 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 branded 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 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 2009 product classifications, sales for our pool and spa chemicals product category as a percentage of total net sales was 17% in 2009, 14% in 2008 and 12% in 2007. We attribute this growth to increases in our market share, a shift in product mix resulting from the decline in construction related products and chemical price increases. No other product category accounted for 10% or more of total net sales in any of the last three fiscal years.

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

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

Maintenance and minor repair products are primarily non-discretionary in nature, meaning that these items must be purchased by end users to maintain existing swimming pools and landscaped areas. In 2009, the sale of maintenance and minor repair products accounted for approximately 70% of our sales and gross profits while approximately 30% of sales and gross profits 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 minor repair products due to the significant declines in new pool construction over the past four years. Historically, just over 50% of our total sales and gross profits were related to maintenance and repair products.

With our acquisition of National Pool Tile (NPT) in 2008, our focus in 2009 included expanding the number of sales center locations that offer NPT's tile and composite pool finish products. Another recent example of our product initiatives is the expansion of our replacement parts offerings. This includes the continued expansion of our Pool Corporation branded products, which has contributed to our improvement of gross margin.

Complementary product sales have also been an important factor in our historical base business sales growth, but have declined over the past several years since the majority of these products are related to construction activities or are discretionary by nature. 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.

Operating Strategy

We operate three distribution networks: the SCP network, the Superior network and the Horizon network. The SCP network consists of 168 sales centers, including 12 sales centers in Europe, the Superior network consists of 62 sales centers and the Horizon network consists of 57 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.

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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.

We also operate 10 centralized shipping locations 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 to 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 16%, 10% and 8%, respectively, of the cost of products we sold in 2009.

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.

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 algaecides and pest control products that are regulated as pesticides under the Federal Insecticide, Fungicide and Rodenticide Act and various state pesticide laws. These laws are primarily related to labeling, annual registration and licensing.

Employees

We employed approximately 3,200 people at December 31, 2009. Given the seasonal nature of our business, our peak employment period is the summer and depending on expected sales levels, we add 200 to 500 employees to our work force to meet seasonal demand.

Intellectual Property

We maintain both domestic and foreign registered trademarks primarily for our private label products that are important to our current and future business operations. We also own rights to 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,		
	2009	2008	2007
United States	$1,393,513	$1,626,869	$1,774,771
International	146,281	156,814	153,596
	$1,539,794	$1,783,683	$1,928,367

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

	December 31,		
	2009	2008	2007
United States	$27,840	$28,931	$30,505
International	3,592	4,117	3,718
	$31,432	$33,048	$34,223

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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 wo expressions of similar meaning. No assurance can be given that the results in any forward-looking statements will be achieved and actual results could be affected by one or more factors, which could cause them to differ materially. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act.

Risk Factors

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

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

In economic downturns, the demand for swimming pool or leisure related products may decline as discretionary consumer spending, the growth rate of pool eligible households and swimming pool construction decline. Although maintenance products and repair and replacement equipment that must be purchased by pool owners to maintain existing swimming pools currently account for approximately 90% of our net sales and gross profits, the growth of this portion of our business depends on the expansion of the installed pool base and could also be adversely affected by decreases in construction activities similar to the trends between late 2006 and 2009. A weakening economy may also cause deferrals of discretionary replacement and refurbish activity. In addition, even in generally favorable economic conditions, severe and/or prolonged downturns in the housing market could have a material adverse impact on our financial performance. Such downturns expose us to certain additional risks, including but not limited to the risk of customer closures or bankruptcies, which could shrink our potential customer base and inhibit our ability to collect on those customers' receivables.

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

We are susceptible to adverse weather conditions.

Weather is one of the principal external factors affecting our business. For example, unseasonably late warming trends in the spring or early cooling trends in the fall can shorten the length of the pool season. Also, unseasonably cool weather or extraordinary rainfall during the peak season can decrease swimming pool use, installation and maintenance, as well as landscape installations and maintenance. These weather conditions adversely affect sales of our products. Drought conditions or water management initiatives may lead to municipal ordinances related to water use restrictions, which could result in decreased pool and irrigation system installations and negatively impact our sales. While warmer weather conditions favorably impact our sales, global warming trends and other significant climate changes can create more variability in the short-term or lead to other unfavorable weather conditions that could adversely impact our sales or operations. For a discussion regarding seasonality and weather, see 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 16%, 10% and 8%, respectively, of the costs of products we sold in 2009. A decision by several suppliers, acting in concert, to sell their products directly to retail customers and other end-users of their products, bypassing distribution companies like ours, would have an adverse effect on our business. Additionally, the loss of a single significant supplier due to financial failure or a decision to sell exclusively to other distributors, retail customers or end user consumers could also adversely affect our business. We dedicate significant resources to promote the benefits and affordability of pool ownership, which we believe greatly benefits our swimming pool customers and suppliers.

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

We face competition from both inside and outside of our industry. Within our industry, we compete against various regional and local distributors and, to a lesser extent, mass market retailers and large pool or landscape supply retailers. Outside of our industry, we compete with sellers of other leisure product alternatives, such as boats and motor homes, and with other companies who rely on discretionary homeowner expenditures, such as home remodelers. New competitors may emerge as there are low barriers to entry in our industry. Some geographic markets that we serve, particularly our four largest, higher density markets in California, Florida, Texas and Arizona, representing approximately 51% of our net sales in 2009, also tend to be more competitive than others.

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

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

We depend on key personnel.

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

Past growth may not be indicative of future growth.

Historically, we have experienced substantial sales growth through acquisitions, market share gains and new sales center openings that have increased our size, scope and geographic distribution. During the past five fiscal years, we have opened 18 new sales centers (net of subsequent closings and consolidations of new sales centers) and have completed 9 acquisitions. These acquisitions have added 74 sales centers (net of sales center closings and consolidations within one year of acquisition) to our distribution networks. Between 2007 and 2009, we also closed or consolidated 12 existing sales centers. While we contemplate continued growth through acquisitions and internal expansion, no assurance can be made as to our ability to:

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

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

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.com™ 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 2009, approximately 67% of our net sales and over 100% of our operating income were generated in the second and third quarters of the year, which represent the peak months of swimming pool use, installation, remodeling and repair.

Our sales are substantially lower during the first and fourth quarters of the year, when we may incur net losses.

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

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

Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties or the imposition of injunctive relief. Moreover, compliance with such laws and regulations in the future could prove to be costly, and there can be no assurance that we will not incur such costs in material amounts. These laws and regulations have changed substantially and rapidly over the last 20 years and we anticipate that there will be continuing changes. The clear trend in environmental, health, transportation and safety regulation is to place more restrictions and limitations on activities that impact the environment, such as the use and handling of chemical substances. Increasingly, strict restrictions and limitations have resulted in higher operating costs for us and it is possible that the costs of compliance with such laws and regulations will continue to increase. We will attempt to anticipate future regulatory requirements that might be imposed and we will plan accordingly to remain in compliance with changing regulations and to minimize the costs of such compliance.

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

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

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

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

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

We source certain products we sell, including our Pool Corporation branded products, from Asia and other international sources. There is a greater risk that we may not be able to access products in a timely and efficient manner, and we may also be subject to certain trade restrictions that prevent us from obtaining products. Fluctuations in other factors relating to international trade, such as tariffs, currency exchange rates, transportation costs and inflation are additional risks for our international operations.

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

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

Item 1B. Unresolved Staff Comments

None.

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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, 2009, we had 18 leases with remaining terms longer than seven years that expire between 2017 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) range in size from 16,000 square feet to 78,000 square feet.

We believe that our facilities are well maintained, suitable for our business and occupy sufficient space to meet our operating needs. As part of our normal business, we regularly evaluate sales center performance and site suitability and may relocate a sales center or consolidate two locations if a sales center is redundant in a market, 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, 2009:

Network	12/31/08	New Locations	Consolidated & Closed Locations (1)	Acquired Locations (2)	Converted Locations (3)	12/31/09
SCP	146	-	(1)	-	2	147
Superior	60	-	(3)	7	(2)	62
Horizon	61	-	(4)	-	-	57
Total Domestic	267	-	(8)	7	-	266
SCP International	21	-	-	-	-	21
Total	288	-	(8)	7	-	287

(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 2009, we consolidated seven sales centers and closed one sales center.
(2) We added 10 sales centers through our acquisition of General Pool & Spa Supply (GPS) in October 2009. We have consolidated three of these locations with existing sales centers.
(3) In 2009, we converted two existing sales centers in Florida from our Superior network to our SCP network.

The table below identifies the number of sales centers in each state or country by distribution network as of December 31, 2009:

Location	SCP	Superior	Horizon	Total
United States				
California	24	21	20	65
Florida	31	6	-	37
Texas	16	4	11	31
Arizona	6	4	10	20
Georgia	7	2	-	9
Tennessee	4	3	-	7
Washington	1	-	6	7
Alabama	4	2	-	6
Nevada	2	2	2	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
Oklahoma	2	1	-	3
Oregon	-	-	3	3
South Carolina	2	1	-	3
Virginia	2	1	-	3
Arkansas	2	-	-	2
Idaho	-	-	2	2
Massachusetts	2	-	-	2
Michigan	2	-	-	2
Minnesota	1	1	-	2
Connecticut	1	-	-	1
Iowa	1	-	-	1
Kansas	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	147	62	57	266
International				
Canada	8	-	-	8

France	5	-	-	5
Portugal	3	-	-	3
United Kingdom	2	-	-	2
Italy	1	-	-	1
Spain	1	-	-	1
Mexico	1	-	-	1
Total International	21	-	-	21
Total	168	62	57	287

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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.

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 19, 2010, there were approximately 11,831 holders of record 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 2009			
First Quarter	$ 19.00	$ 11.39	$ 0.13
Second Quarter	18.47	13.58	0.13
Third Quarter	24.57	15.79	0.13
Fourth Quarter	23.62	17.75	0.13
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

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, 2004 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.

	Base Period	INDEXED RETURNS Years Ending				
Company / Index	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09
Pool Corporation	100	117.77	125.16	64.33	59.80	65.41
S&P MidCap 400 Index	100	112.56	124.17	134.08	85.50	117.46
NASDAQ US Index	100	101.33	114.01	123.71	73.11	105.61

Purchases of Equity Securities

The table below summarizes the repurchases of our common stock in the fourth quarter of 2009.

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, 2009	-	$ -	-	$ 52,987,067
November 1-30, 2009	-	$ -	-	$ 52,987,067
December 1-31, 2009	-	$ -	-	$ 52,987,067
Total	-	$ -	-	

(1) These shares may include shares of our common stock surrendered to us by employees in order to satisfy tax withholding obligations in connection with certain exercises of employee stock options and/or the exercise price of such options granted under our share-based compensation plans. There were no shares surrendered for this purpose in the fourth quarter of 2009.

(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 2009, we did not purchase any shares under our Board authorized plan. As of February 22, 2010, $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)	2009(2)	2008	2007	2006	2005(3)
Statement of Income Data					
Net sales	$1,539,794	$1,783,683	$1,928,367	$1,909,762	$1,552,659
Operating income	88,440	115,476	133,774	167,382	135,363
Net income	19,202	56,956	69,394	95,024	80,455
Earnings per share:					
Basic	$ 0.39	$ 1.19	$ 1.42	$ 1.83	$ 1.53
Diluted	$ 0.39	$ 1.17 (4)	$ 1.37	$ 1.74	$ 1.44(4)
Cash dividends declared per common share	$ 0.52	$ 0.51	$ 0.465	$ 0.405	$ 0.34
Balance Sheet Data(5)					
Working capital	$ 230,804	$ 294,552	$ 250,849	$ 227,631	$ 193,525
Total assets	743,099	830,906	814,854	774,562	740,850
Total long-term debt, including current portion	248,700	307,000	282,525	191,157	129,100
Stockholders' equity(6)	252,187	241,734	208,791	277,684	281,724
Other					
Base business sales change(7)	(15)%	(9)%	(1)%	10%	14%
Number of sales centers	287	288	281	274	246

(1) During the years 2005 to 2009, we successfully completed 9 acquisitions consisting of 74 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. Our results were negatively impacted between 2007 and 2009 due to the adverse external market conditions, which included downturns in the housing market and overall economy that led to significant declines in pool and irrigation construction activities and deferred discretionary replacement purchases by consumers.

(2) The 2009 net income and earnings per share amounts include the impact of a $26.5 million equity loss that we recognized in September 2009 related to our pro rata share of Latham Acquisition Corporation's (LAC) non-cash goodwill and other intangible asset impairment charge. The impact of this impairment charge was a $0.54 per share decrease in diluted earnings per share compared to 2008. The recognized loss resulted in the full write-off of our equity method investment in LAC. For additional information about our equity method investment in LAC, see Note 1 of "Notes to Consolidated Financial Statements," included in Item 8 of this Form 10-K.

(3) As adjusted to reflect the impact of share-based compensation expense related to the adoption of Accounting Standards Codification 718, Compensation – Stock Compensation, using the modified retrospective transition method.

(4) As adjusted for the adoption of ASC 260-10-45-61A, which resulted in a $0.01 decrease in our diluted earnings per share for 2008 and 2005 due to rounding. For additional information, see Note 1 of "Notes to Consolidated Financial Statements," included in Item 8 of this Form 10-K.

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

(6) In June 2006, the Financial Accounting Standards Board (FASB) issued guidance for accounting for uncertainty in income taxes. The beginning stockholders' equity balance in 2007 reflected a reduction to retained earnings of approximately $0.5 million related to the implementation of this guidance.

(7) 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

2009 FINANCIAL OVERVIEW

Financial Results

We believe our 2009 financial results reflect our ability to capitalize on our financial and operational strengths and provide evidence of our resiliency given the most difficult external market environment ever faced by our industry. We achieved many of our 2009 objectives by focusing on disciplined pricing and purchasing strategies (driving record gross margin), rebalancing inventories and improving working capital management (leading to record cash from operations) and controlling costs relative to our current sales levels. We believe that we realized continued market share gains, which we attribute to our high service levels coupled with growth initiatives that included the expansion of product category offerings in tile and replacement parts.

Net sales decreased 14% compared to 2008 due to a 15% decline in base business sales, which reflects the prolonged impact of lower pool and irrigation construction activity, greater deferred discretionary replacement activity and unfavorable weather and currency fluctuations. These reductions were partially offset by an increase in certain maintenance and repair product sales, inflationary price increases that we passed through the supply chain and sales for new drains and related safety products as a result of the Virginia Graeme Baker Pool and Spa Safety Act (VGB Act). 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) increased 30 basis points to 29.2% in 2009 as favorable shifts in product mix and continued improvements in margin management practices helped offset negative pressures from the competitive pricing environment.

Selling and administrative expenses (operating expenses) for 2009 decreased 10% compared to 2008. This decrease reflects the impact of cost control initiatives, including lower payroll related, variable and discretionary expenses, and reduced delivery and vehicle operating costs. These results include $1.4 million of non-cash charges in the second half of 2009 related to the closure and consolidation of certain sales centers between September and December 2009.

Operating income declined 23% to $88.4 million in 2009, while operating income as a percentage of net sales (operating margin) decreased to 5.7% in 2009 compared to 6.4% in 2008. Interest expense, net declined $9.2 million compared to 2008 due primarily to a 41% decrease in interest expense and $1.8 million of foreign currency transaction gains.

As we reported in our third quarter 2009 results, we recognized a $26.5 million equity loss related to our pro rata share of Latham Acquisition Corporation's (LAC) non-cash goodwill and other intangible asset impairment charge. Since our pro-rata share of this charge exceeded the $26.5 million recorded value of our investment in LAC as of September 1, 2009, the recognized loss reflected the full write-off of the investment. Prior to this, we had recognized an equity loss of $2.2 million related to our share of LAC's loss from ongoing operations for the eight months ended August 2009. In total, we recognized an equity loss of $28.7 million for LAC in 2009. This compares to an equity loss of $1.7 million recognized in fiscal 2008. LAC filed for bankruptcy in December 2009 and its Plan of Reorganization was approved by the United States Bankruptcy Court for the District of Delaware in January 2010, allowing it to emerge from bankruptcy. As of the date of the approval, we no longer have an equity interest in LAC and will not recognize any impact related to LAC's future earnings or losses. We did not recognize any tax benefits related to the write-down of our equity investment in LAC.

Earnings per share for 2009 was $0.39 per diluted share on net income of $19.2 million, compared to earnings per share of $1.17 per diluted share on net income of $57.0 million in 2008. The $0.78 decrease in diluted earnings per share includes a decline of approximately $0.59 per diluted share related to our equity investment in LAC, $0.54 of which is related to our pro-rata share of LAC's impairment charge.

Financial Position and Liquidity

Cash provided by operations increased $20.0 million to $113.3 million in 2009. In January 2009, we paid $30.0 million for our deferred third and fourth quarter 2008 federal income tax payments. We also paid $26.0 million in 2009 for our third and fourth quarter 2009 estimated taxes. Excluding this $56.0 million combined impact of timing differences related to 2008 and 2009 estimated federal income tax payments, cash from operations improved $76.0 million in 2009. This improvement is due to our focused management of working capital and reflects the decrease in inventory discussed below. Cash provided by operations helped fund the following in 2009:

- $10.9 million for acquisitions, including our acquisition of General Pool & Spa Supply (GPS) in October 2009;
- debt repayments of $79.1 million, which helped lower our borrowing costs;
- quarterly cash dividend payments to shareholders, which totaled $25.3 million for the year; and
- capital expenditures of $7.2 million.

Total net receivables decreased 17% to $96.4 million at December 31, 2009 from $115.6 million at December 31, 2008 due to the lower sales, a shift toward more cash sales as a result of tighter credit terms and a $2.3 million decrease in the allowance for doubtful accounts, which reflects write-offs of certain accounts that were fully reserved and some improvement in our past due receivable balances year over year. Days sales outstanding (DSO) decreased to 34.9 days at December 31, 2009 from 36.3 days at December 31, 2008.

Our inventory levels decreased 12% to $355.5 million as of December 31, 2009 compared to $405.9 million as of December 31, 2008. Excluding approximately $8.0 million of inventory related to the acquisition of GPS, inventories declined 14% year over year due to the success of our inventory rebalancing efforts and the decrease in sales. Our inventory turns, as calculated on a trailing twelve month basis, slowed to 3.0 times as of December 31, 2009 compared to 3.1 times as of December 31, 2008.

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

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

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

2009	2008	2007	2006

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

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

OUTLOOK

Our key 2010 objectives are consistent with 2009 and include the following:

- realizing market share growth;
- managing purchasing and pricing strategies to maximize gross margin;
- tightly controlling expenses and working capital relative to sales levels; and
- maximizing cash flow generation to reduce debt.

While we believe that the level of declines in new construction activity peaked in 2009, we expect the ongoing housing market and general economic downturns will continue to pressure new pool and irrigation construction activity in 2010. However, we anticipate a relatively stable maintenance market based on the increased installed based of swimming pools and the potential for higher replacement and refurbish activity due to recent pent-up demand caused by consumer’s decisions to defer discretionary purchases. We expect that sales levels relative to 2009 will be lower in the first quarter of 2010, but should gradually improve throughout the remainder of the year with comparatively higher sales levels anticipated in the second half of 2010. The first half of 2009 included approximately $17.0 million of increased sales for new drains and related safety products as a result of the Virginia Graeme Baker Pool and Spa Safety Act (VGB Act), and we do not expect any significant sales activity related to the VGB Act in 2010.

In 2010, we do not anticipate any inflationary product cost increases. Given the competitive pricing environment and the favorable impact to gross margin in the first half of 2009 based on our volume inventory purchases ahead of vendor price increases in the second half of 2008, we believe gross margin could drop off modestly in the first half of 2010. However, we expect gross margin will be essentially flat for the full year compared to 2009.

While we continue to drive targeted expense reductions, the rate of these decreases should continue to moderate throughout 2010 as we lap more of the impact of cost measures implemented in 2009. In 2010, we expect interest expense will continue to decline based on lower projected average borrowings. Excluding any acquisition activity, we plan to open two new sales centers in 2010.

Based on current trends including the unfavorable weather conditions during the first two months of 2010, we project that 2010 earnings per share will be in the range of $1.00 to $1.15 per diluted share. This range includes our expectation for a higher seasonal loss per diluted share in the first quarter of 2010 compared to the same period in 2009, with gradually improving year on year comparisons as 2010 progresses. The lower end of this range assumes earnings results consistent with fiscal 2009, but includes the comparative benefits from lower expected interest expense, the projected accretive impact of the GPS acquisition of approximately $0.02 per diluted share and the fact that there will be no impact from LAC since we no longer have an equity interest in LAC as of January 2010.

We expect cash provided by operations will approximate net income for fiscal 2010, but will be comparatively lower than 2009 because we will not realize the same level of improvements from our ongoing working capital management initiatives.

The forward-looking statements in this Outlook section are subject to significant risks and uncertainties, including changes in the economy and the housing market, the sensitivity of our business to weather conditions, our ability to maintain favorable relationships with suppliers and manufacturers, competition from other leisure product alternatives and mass merchants, and other risks detailed in 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. However, write-offs as a percentage of net sales was 0.4% in 2009 and 0.3% in 2008, 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, 2009, pretax income would change by approximately $2.3 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, 2009.

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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. We also evaluate whether the calculated reserve provides sufficient coverage of the total Class 13 inventory.

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

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

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

If the balance of our inventory reserve increased or decreased by 20% at December 31, 2009, pretax income would change by approximately $1.6 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, 2009.

Vendor Incentives

We account for vendor incentives in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605-50-25-10, Customer's Accounting for Certain Consideration Received from a Vendor. Many of our vendor arrangements provide for us to receive incentives of specified amounts of consideration when we achieve any of a number of measures. These measures are generally related to the volume level of purchases from our vendors and may include negotiated pricing arrangements. We account for vendor incentives as 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, 2009, and in accordance with the provisions of ASC 740, 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 changes in valuation allowances that we have established. As a result of these uncertainties, our total income tax provision may fluctuate on a quarterly basis.

Incentive Compensation Accrual

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, 2009, our goodwill balance was $176.9 million, representing 24% 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 ASC 350-20, Goodwill. 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 we define our operating segment as an individual sales center and we do not have operations below the sales center level, our reporting unit is an individual sales center.

In September 2009, we closed one of our Horizon sales centers in Texas. As a result, we performed an interim impairment test 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 $0.3 million of goodwill related to this reporting unit. This impairment expense is recorded in selling and administrative expenses on the Consolidated Statements of Income.

In October 2009, we performed our annual goodwill impairment test. As of October 1, 2009, we had 203 reporting units with allocated goodwill balances. The highest goodwill balance is $7.1 million for our UK reporting unit. For the other reporting units, the highest goodwill balance is $5.7 million and the average goodwill balance is $0.8 million. We estimate the fair value of our reporting units by utilizing a fair value model, which requires 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 estimates, we compare the total estimated fair value for all aggregated reporting units to our market capitalization on the date of our impairment test. We also review for potential impairment indicators at the reporting unit level based on an evaluation of recent historical operating trends, current and projected local market conditions and other relevant factors as appropriate. Based on our annual goodwill impairment test, we determined that the goodwill attributed to all of our reporting units is not impaired.

If our assumptions or estimates in our fair value calculations 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, we performed a sensitivity test for the two key assumptions in our annual goodwill impairment test and determined that an increase in our estimated weighted average cost of capital of 50 basis points or a decrease in the estimated perpetuity growth rate of 1% could have resulted in the estimated fair value of four reporting units falling below their carrying values. The calculated goodwill impairment based on this sensitivity test was approximately $0.6 million combined for all four reporting units. Overall, we believe that our reporting units most at risk for goodwill impairment include the UK, Spain and one New Jersey location based on the combination of their higher goodwill balances and 2009 operating results at approximately break even levels due to the impacts of the current adverse external market environment.

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Equity Method Investments

As of December 31, 2009, we had 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 ASC 323, Investments-Equity Method and Joint Ventures.

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.

As of December 31, 2008, the carrying value of our investments was $31.2 million, including $30.1 million for LAC. Based on the fact that LAC's results had deteriorated due to 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 was an indicator of a decrease in the value of our investment as of December 31, 2008 and, if so, whether it reflected an other-than-temporary impairment. In evaluating the value of our investment in LAC, we considered the following:

- the 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.

In 2009, LAC had a net loss for the six months ended June 2009 as its second quarter net income was not enough to offset its first quarter seasonal loss. As of June 30, 2009, we determined that there were no significant changes in LAC's long-term financial projections or the other factors we consider in performing our evaluation for indicators of a potential decrease in the value of our investments that may result in other-than-temporary impairments.

In the third quarter of 2009, LAC identified indicators of impairment based on an evaluation of its future capital requirements that required it to perform an interim impairment assessment of its goodwill and other intangible assets. On September 1, 2009, LAC recorded a non-cash impairment charge based on its interim impairment test. Since our pro rata share of this impairment charge exceeded our equity investment balance, we recognized a $26.5 million equity loss equal to our equity investment balance as of September 1, 2009, reducing the value of our investment in LAC to zero. In December 2009, LAC filed for bankruptcy and its Plan of Reorganization was approved by the United States Bankruptcy Court for the District of Delaware in January 2010, allowing it to emerge from bankruptcy. As of January 2010, we no longer have an equity interest in LAC and will not recognize any impact related to LAC's future earnings or losses.

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.

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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,		
	2009	2008	2007
Net sales	100.0%	100.0%	100.0%
Cost of sales	70.8	71.1	72.5
Gross profit	29.2	28.9	27.5
Operating expenses	23.5	22.4	20.6
Operating income	5.7	6.4	6.9
Interest expense, net	0.6	1.1	1.1
Income before income taxes and equity earnings (loss)	5.1	5.4	5.8

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 2009, 2008 and 2007. We have included the results of operations in our consolidated results since the respective acquisition dates.

Fiscal Year 2009 compared to Fiscal Year 2008

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

(Unaudited) (In thousands)	Base Business Year Ended December 31,		Excluded Year Ended December 31,		Total Year Ended December 31,	
	2009	2008	2009	2008	2009	2008
Net sales	$1,482,686	$1,737,465	$57,108	$46,218	$1,539,794	$1,783,683
Gross profit	434,264	501,019	15,460	14,209	449,724	515,228
Gross margin	29.3%	28.8%	27.1%	30.7%	29.2%	28.9%
Operating expenses	345,591	385,280	15,693	14,472	361,284	399,752
Expenses as a % of net sales	23.3%	22.2%	27.5%	31.3%	23.5%	22.4%
Operating income (loss)	88,673	115,739	(233)	(263)	88,440	115,476
Operating margin	6.0%	6.7%	(0.4)%	(0.6)%	5.7%	6.4%

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

Acquired	Acquisition Date	Net Sales Centers Acquired	Period Excluded
General Pool & Spa Supply (GPS) (1)	October 2009	7	October–December 2009
Proplas Plasticos, S.L. (Proplas)	November 2008	0	January–December 2009 and November–December 2008
National Pool Tile Group, Inc. (NPT) (2)	March 2008	8	January–May 2009 and March–May 2008
Canswim Pools	March 2008	1	January–May 2009 and March–May 2008

(1) We acquired 10 GPS sales centers and have consolidated 3 of these with existing sales centers as of December 31, 2009.

(2) We acquired 15 NPT sales centers and have consolidated 7 of these with existing sales centers, including 4 in March 2008, 2 in the second quarter of 2008 and 1 in April 2009.

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, 2009):

- acquired sales centers (7, net of consolidations – see table above);
- existing sales centers consolidated with acquired sales centers (1);
- closed sales centers (5, including 1 in 2009);
- consolidated sales centers in cases where we do not expect to maintain the majority of the existing business (0); and
- sales centers opened in new markets (0).

Since we divested our pool liner manufacturing operation in France at the beginning of April 2008, we also excluded these operations from base business for the comparative three month period ended March 31, 2008.

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

The table below summarizes the changes in our sales centers during 2009:

December 31, 2008	288
Acquired, net of consolidations	7
Consolidated	(7)
Closed	(1)
December 31, 2009	287

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

	Year Ended December 31,			
(in millions)	2009	2008	Change	
Net sales	$1,539.8	$1,783.7	$(243.9)	(14)%

The new pool and irrigation construction markets continue to face unprecedented adverse conditions created by the combination of significant declines in the real estate and the mortgage-backed financing markets. Coupled with the severely depressed economic environment in 2009, these external factors have placed considerable pressure on our top line results. As a result, our sales were negatively impacted as construction activities remained depressed and consumers continued to defer discretionary replacement purchases.

Base business sales decreased 15% compared to 2008, including a 12% decline on the swimming pool side of the business and a 37% decline on the irrigation side of the business, which is more heavily weighted toward new construction and discretionary product sales. Overall, weather conditions were unfavorable compared to the same period in 2008 (see discussion of significant weather impacts under the heading Seasonality and Quarterly Fluctuations beginning on page 32). Unfavorable currency fluctuations also resulted in a decrease in sales of approximately 1%.

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

- estimated inflationary price increases of approximately 3% to 4% that we passed through the supply chain;
- higher sales of certain maintenance and repair products due to both price inflation and market share growth, including a 6% increase in chemical sales and a 2% increase in total parts product sales;
- a net increase of approximately $13.0 million in sales for new drains and related safety products as a result of the VGB Act, which became effective in December 2008 and imposes mandatory federal requirements on the manufacture, distribution and/or sale of suction entrapment avoidance devices such as safety drain covers, public pool drain covers and public pool drain systems (an increase of over $17.0 million for the first nine months of 2009 was offset by a decrease of over $4.0 million in the fourth quarter of 2009 compared to the same period in 2008);
- approximately $7.0 million in first quarter sales related to our 2008 acquisitions; and
- $4.7 million in fourth quarter sales related to our 2009 acquisition.

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 grew approximately 1% in 2009; and
- price increases (as mentioned above).

Gross Profit

	Year Ended December 31,			
(in millions)	2009	2008	Change	
Gross profit	$ 449.7	$ 515.2	$(65.5)	(13)%
Gross margin	29.2%	28.9%		

In 2009, gross margin increased 30 basis points compared to 2008 as a shift in sales mix to products in the higher margin maintenance and repair market and specific margin improvement initiatives helped offset the adverse impact on gross margins due to the tough competitive pricing environment. Gross margin increased 60 basis points in the first half of 2009, but was flat in the second half of 2009. For the year, favorable impacts compared to 2008 included the following (listed in order of estimated magnitude):

- benefits recognized in the first half of 2009 resulting from pre-price increase inventory purchases made in the second half of 2008 (with gross margin up 120 basis points in the first quarter of 2009 and up 30 basis points in the second quarter of 2009 compared to the same periods in 2008);
- increased sales of preferred vendor and Pool Corporation private label products; and
- lower freight expenses on product purchases due to lower fuel costs.

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Operating Expenses

(in millions)	Year Ended December 31, 2009	2008	Change	
Operating expenses	$ 361.3	$ 399.8	$(38.5)	(10)%
Operating expenses as a percentage of net sales	23.5%	22.4%		

The decrease in operating expenses reflects a 10% decline in base business operating expenses due primarily to the impact of our cost control initiatives including lower payroll related, variable and discretionary expenses. Average monthly total headcount in 2009 decreased 10% compared to 2008, driving a 9% decline in total labor and related costs. Total delivery expenses declined 25%, reflecting lower delivery volumes and decreases in both vehicle operating expenses (including lower fuel costs) and vehicle rental expenses. Most discretionary expenses declined compared to 2008, including a $2.1 million decrease in advertising costs. Bad debt expense also decreased $5.2 million as the rate of customer payment issues has fallen after peaking at the end of the 2008 season.

The decrease in base business operating expenses was partially offset by the impact of our acquired sales centers. During the first quarter of 2009 we realized approximately $2.0 million in operating expenses related to our 2008 acquisitions and we incurred $1.5 million of operating expenses in the fourth quarter of 2009 related to our acquisition of GPS. Despite the decrease in headcount, employee insurance costs increased $1.6 million compared to 2008 due primarily to several high dollar claims in the fourth quarter of 2009. Total operating expenses as a percentage of net sales increased between periods due to the decrease in net sales.

Interest Expense

Interest expense, net declined $9.2 million compared to 2008 due primarily to a 41% decrease in interest expense and $1.8 million of foreign currency transaction gains. Interest expense declined due to a 17% lower average outstanding debt balance and a decrease in the weighted average effective interest rate to 3.4% in 2009 from 4.8% 2008.

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 39.30% at December 31, 2009 and 39.26% at December 31, 2008.

Net Income and Earnings Per Share

Net income decreased to $19.2 million in 2009 compared to $57.0 million in 2008. Earnings per share for 2009 decreased to $0.39 per diluted share compared to $1.17 in 2008. The $0.78 decrease in diluted earnings per share reflects the $0.54 per diluted share impact of LAC's impairment charge included in the reported equity loss for 2009. The dilutive impact of our fourth quarter 2009 acquisition was approximately $0.01 per diluted share for 2009.

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 Year Ended December 31,		Excluded Year Ended December 31,		Total 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%

For an explanation of how we calculate base business, please refer to the discussion of base business on page 27 under the heading "Fiscal Year 2009 compared to Fiscal Year 2008".

For purposes of comparing operating results for the year ended December 31, 2008 to the year ended December 31, 2007, we have excluded acquired sales centers from base business for the periods identified in the table below. As of December 31, 2008, we also excluded seven existing sales centers consolidated with acquired sales centers, four closed sales centers and one consolidated sales center from base business. In addition to the 22 total 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 also excluded these operations from base business for the comparative nine month period ended December 31, 2007.

Acquired	Acquisition Date	Net Sales Centers Acquired	Period Excluded
Proplas Plasticos, S.L. (1)	November 2008	0	November and December 2008
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

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

For information about our 2008 and 2007 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)%

During 2008, new pool and irrigation construction markets continued to face 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 an 18% decrease on the irrigation side of the business. This impact was 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.

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 grew approximately 2% to 3% in 2007; and
- price increases (as mentioned above).

Gross Profit

(in millions)	Year Ended December 31, 2008	2007	Change	
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, 2008	2007	Change	
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 was 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, net 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 (as adjusted in 2009 for the adoption of ASC 260-10-45-61A) decreased to $1.17 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.

Seasonality and Quarterly Fluctuations

Our business is highly seasonal. In general, sales and operating income are highest during the second and third quarters, which represent the peak months of both swimming pool use and installation and landscape installations and maintenance. Sales are substantially lower during the first and fourth quarters, when we may incur net losses. In 2009, approximately 67% of our net sales and over 100% of our operating income were generated in the second and third quarters of the year.

We typically experience a build-up of product inventories and accounts payable during the winter months in anticipation of the peak selling season. 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. Our debt levels peaked a little earlier in 2009 based on early payments we made in the first six months of 2009 to take advantage of pre-price increase inventory purchases and early payment discounts offered by certain vendors.

The following table presents certain unaudited quarterly data for 2009 and 2008. We have included income statement and balance sheet data for the most recent eight quarters to allow for a meaningful comparison of the seasonal fluctuations in these amounts. In our opinion, this information reflects all normal and recurring adjustments considered necessary for a fair presentation of this data. Due to the seasonal nature of 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							
	2009				2008			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Statement of Income Data								
Net sales	$276,626	$602,082	$430,054	$231,032	$338,215	$692,972	$493,530	$258,966
Gross profit	81,193	178,068	123,394	67,069	95,354	202,752	141,800	75,322
Operating income (loss)	(3,646)	81,720	32,142	(21,776)	2,197	89,990	38,617	(15,328)
Net income (loss)	(6,236)	48,366	(9,322)	(13,606)	(3,184)	52,875	22,060	(14,795)
Net sales as a % of annual net sales	18%	39%	28%	15%	19%	39%	28%	15%
Gross profit as a % of annual gross profit	18%	40%	27%	15%	19%	39%	28%	15%
Operating income (loss) as a								

% of annual operating income	(4)%	92%	36%	(25)%	2%	78%	33%	(13)%
Balance Sheet Data								
Total receivables, net	$160,318	$233,288	$149,733	$ 96,364	$206,187	$278,654	$178,927	$115,584
Product inventories, net	397,863	325,198	318,177	355,528	476,758	385,258	345,944	405,914
Accounts payable	201,300	194,004	137,761	178,391	333,104	193,663	128,329	173,688
Total debt	381,221	334,015	273,300	248,700	396,110	441,992	337,742	327,792

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

While weather conditions in the first quarter of 2009 were generally favorable compared to the same period last year, we did not realize any positive impact on sales given the overriding adverse economic environment. Unfavorable weather delayed the start of the pool season in both 2008 and 2009 in a number of our markets, with the 2009 season adversely impacted in most markets by much colder than normal temperatures in April. Throughout the second quarter of 2009, weather conditions were unfavorable overall and adversely impacted sales due to cold and wet conditions in the Midwest and Northeast. The Southwest also experienced unseasonably cool and wet weather during June. Our third quarter 2009 sales were also negatively impacted due to much colder than normal temperatures that shortened the pool season in most Central and Northern markets and higher than normal rainfall in the South Central United States. Consistent with the third quarter of 2008, weather conditions were favorable in the Western U.S. and Florida due to warmer than average temperatures. However, near record precipitation across most of the Central and Southeast regions and much colder than average temperatures in the western half of the United States negatively impacted our fourth quarter 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.

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, dividend payments and share repurchases. Our primary sources of working capital are cash from operations supplemented by bank borrowings, which combined with seller financing have historically been sufficient to support our growth and finance acqui