

POOL CORP
Form 10-K
February 29, 2008

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, 2007

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

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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 NO

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant based on the closing sales price of the Registrant's common stock as of June 29, 2007 was \$1,860,766,335.

As of February 22, 2008, the Registrant had 47,722,617 shares of common stock outstanding.

Documents Incorporated by Reference

Portions of the Registrant's Proxy Statement to be mailed to stockholders on or about March 28, 2008 for the Annual Meeting to be held on May 6, 2008, are incorporated by reference in Part III of this Form 10-K.

POOL CORPORATION

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PART I.

Item 1. Business

General

Based on industry data, Pool Corporation (the Company, which may be referred to as POOL, we, us or our) is the world's largest wholesale distributor of swimming pool supplies, equipment and related leisure products. The Company was incorporated in the State of Delaware in 1993 under the name SCP Holding Corporation, and in 1995 changed its name to SCP Pool Corporation. In 2006, the Company changed its name to Pool Corporation. This change acknowledges the Company's growth 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, 2007 we operated 281 sales centers in North America and Europe.

Our Industry

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

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

The majority of consumer spending in our industry is derived from the non-discretionary maintenance of existing swimming pools, including the repair and replacement of the equipment for those pools. We believe that the recurring nature of the repair and replacement market has helped maintain a relatively consistent rate of industry growth historically, even in periods when unfavorable economic conditions and negative trends in the housing market adversely impact pool construction activities.

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

General economic conditions (as commonly measured by Gross Domestic Product or GDP) 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 may be some 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.

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In 2007, the sharp drop in new home construction, home value deflation in many markets, the tightening of credit and negative trends in consumer confidence had a negative impact on the industry and our performance. Since less than 40% of our sales are tied to new pool or irrigation construction and we estimate that only 10% to 20% of new pools are constructed along with new home construction, we do not expect any cyclicalities in new housing starts in itself to have a significant long-term impact on our business. Our expectation is that the swimming pool industry will return to an annual growth rate of approximately 2% to 6% when the real estate and credit markets revert to normal.

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

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

Business Strategy and Growth

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

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

We promote the growth of our customers' businesses through comprehensive support programs that offer promotional tools and marketing support to help generate increased sales for our customers. Our uniquely tailored programs include such features as customer lead generation, personalized websites, brochures, marketing campaigns and business development training. As a customer service, we also provide certain retail store customers assistance with everything from site selection to store layout and design to business management system implementation.

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.

In addition to our efforts aimed at industry and customer growth, we have increased our product breadth, as described in the "Customers and Products" section below. We have also expanded our sales center network through acquisitions (which have been an important source of sales growth), new sales center openings and expansions of existing sales centers. Since 2003, we have opened 39 new sales centers (net of sales center closings and consolidations) and successfully completed 11 acquisitions consisting of 64 sales centers (net of sales center closings and consolidations).

Based upon industry data, we believe the industry grew at a 2% to 6% annual rate for the period between 2000 and 2005 but declined in 2006 and 2007. Historically, our growth has exceeded the industry's rates and allowed us to increase market share. We expect our sales growth to be higher than the industry average due to increases in market

share and expansion of our product offerings.

For additional discussion of our recent acquisitions, see Note 2 and Note 14 of “Notes to Consolidated Financial Statements,” included in Item 8 of this Form 10-K. We intend to pursue additional strategic acquisitions, which will allow us to further penetrate existing markets and expand into new geographic markets and product categories.

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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.

We conduct our operations through 281 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 54% of our net sales in 2007. 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 private label products. We believe that our selection of pool equipment, supplies, chemicals, replacement parts, irrigation and landscape products and complementary products is the most comprehensive in the industry. The products we sell can be categorized as follows:

- maintenance products such as chemicals, supplies and pool accessories;
- repair and replacement parts for cleaners, filters, heaters, pumps and lights;
- packaged pool kits including walls, liners, braces and coping for in-ground and above-ground pools;
- pool equipment and components for new pool construction and the remodeling of existing pools;
 - irrigation and landscape products, including professional lawn care equipment; and
 - complementary products, including:
 - — 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, outdoor furniture and grills.

Maintenance products and repair and replacement parts are non-discretionary in nature, meaning that these items must be purchased by end-users to maintain existing swimming pools and landscaped areas. Over 60% of our gross profits are derived from the sale of products used to maintain and repair these existing features and less than 40% are derived from the construction and installation (equipment, materials, plumbing, electrical, etc.) of new pools and landscaping. We distribute irrigation and landscape products through our Horizon Distributors (Horizon) network, which we acquired through acquisitions in 2005 and 2006.

Our complementary product sales accounted for over 9% of our total net sales in 2007 at comparable margins to our traditional product offerings. While complementary product sales decreased 3% in 2007 due primarily to the downturn in new pool and irrigation construction, complementary product sales have been an important factor in our base business sales growth over the past eight years, having grown from approximately \$3.0 million in 1999 to over \$180.0 million in 2007.

We have identified 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. In 2008, 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 Distributors (SCP) network, the Superior Pool Products (Superior) network and the Horizon network. The SCP network consists of 157 sales centers, including 11 locations in Europe, the Superior network consists of 62 locations and the Horizon network also consists of 62 locations.

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

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

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

Distribution

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

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

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

Purchasing and Suppliers

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

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

We regularly evaluate supplier relationships and consider alternate sourcing to assure competitive cost, service and quality standards. Our largest suppliers include Pentair Corporation, Hayward Pool Products, Inc. and Zodiac Pool Care, Inc., which accounted for approximately 15%, 11% and 9%, respectively, of the cost of products we sold in 2007.

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 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; and
- competitive product pricing.

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

Employees

We employed approximately 3,500 people at December 31, 2007. Given the seasonal nature of our business, our peak employment period is the summer, when we add approximately 500 more employees to our work force to meet seasonal demand.

Intellectual Property

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

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Geographic Areas

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

	Year Ended December 31,		
	2007	2006	2005
United States	\$1,774,771	\$1,779,085	\$1,442,332
International	153,596	130,677	110,327
	\$1,928,367	\$1,909,762	\$1,552,659

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

	December 31,		
	2007	2006	2005
United States	\$30,505	\$29,825	\$22,520
International	3,718	3,808	3,078
	\$34,223	\$33,633	\$25,598

Available Information

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

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

Item 1A. Risk Factors

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

Our disclosure and analysis in this report contains forward-looking information that involves risks and uncertainties. Our forward-looking statements express our current expectations or forecasts of possible future results or events, including projections of future performance, statements of management's plans and objectives, future contracts, and forecasts of trends and other matters. Forward-looking statements speak only as of the date of this filing, and we undertake no obligation to update or revise such statements to reflect new circumstances or unanticipated events as they occur. You can identify these statements by the fact that they do not relate strictly to historic or current facts and often use words such as "anticipate", "estimate", "expect", "believe," "will likely result," "outlook," "project" and other words or expressions of similar meaning. No assurance can be given that the results in any forward-looking statements will be achieved and actual results could be affected by one or more factors, which could cause them to differ materially. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act.

Risk Factors

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

The demand for our swimming pool and related outdoor lifestyle products may 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 account for more than 60% of our gross profits, the growth of this portion of our business depends on the expansion of the installed pool base and could also be adversely affected by decreases in construction activities similar to the trends in 2007. 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 are susceptible to adverse weather conditions.

Weather is one of the principal external factors affecting our business. For example, unseasonably late warming trends in the spring or early cooling trends in the fall can shorten the length of the pool season. Also, unseasonably cool weather or extraordinary rainfall during the peak season can decrease swimming pool use, installation and maintenance, as well as landscape installations and maintenance. These weather conditions adversely affect sales of our products. For a discussion regarding seasonality and weather, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Seasonality and Quarterly Fluctuations," of this Form 10-K.

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

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

Our largest suppliers are Pentair Corporation, Hayward Pool Products, Inc. and Zodiac Pool Care, Inc., which accounted for approximately 15%, 11% and 9%, respectively, of the costs of products we sold in 2007. 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 supplier 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 largest, higher density markets in California, Florida, Texas and Arizona, representing approximately 54% of our net sales in 2007, 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.

Specifically, our future success depends to an extent upon the continued service of Manuel Perez de la Mesa, our President and Chief Executive Officer. The loss of Mr. Perez de la Mesa in particular could have a material adverse effect on our business. Mr. Perez de la Mesa is not nearing retirement age, and we have no indication that he intends to retire in the near future. We do not currently maintain key man insurance on Mr. Perez de la Mesa.

Past growth may not be indicative of future growth.

We have experienced substantial sales growth through acquisitions and new sales center openings that have increased our size, scope and geographic distribution. During the past five fiscal years, we have opened 39 new sales centers and have completed 11 acquisitions. These acquisitions have added 64 sales centers, net of sales center closings and consolidations, and a centralized shipping location to our distribution networks. While we contemplate continued growth through acquisitions and internal expansion, no assurance can be made as to our ability to:

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

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

The growth of our business depends on effective marketing programs.

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

We also promote the growth of our customers' businesses through comprehensive support programs that offer promotional tools and marketing support to help generate increased sales for our customers. Our programs include such things 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 2007, approximately 65% of our net sales and over 100% of our operating income were generated in the second and third quarters of the year, which represent the peak months of swimming pool use, installation, remodeling and repair. Our sales are substantially lower during the first and fourth quarters of the year, when we may incur net losses.

The nature of our business subjects us to compliance with Environmental, Health, Transportation and Safety Regulations.

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

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

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

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

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

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

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

We source certain products we sell, including our private label products, from Asia and other international sources. There is a greater risk that we may not be able to access products in a timely and efficient manner, and we may also be subject to certain trade restrictions that prevent us from obtaining products. Fluctuations in other factors relating to

international trade, such as tariffs, currency exchange rates, transportation costs and inflation are additional risks for our international operations.

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease the POOL corporate offices, which consist of approximately 50,000 square feet of office space in Covington, Louisiana, from an entity in which we have a 50% ownership interest. We own three sales centers in Florida and one sales center 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, 2007, we had seven leases that expire between 2018 and 2027. Most of our leases contain renewal options, some of which involve rent increases. In addition to minimum rental payments, which are set at competitive rates, certain leases require reimbursement for taxes, maintenance and insurance.

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

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

The table below summarizes the changes in our sales centers during the year ended December 31, 2007:

Network	12/31/06	Consolidated			12/31/07
		New Locations	& Closed Locations (1)	Acquired Locations	
SCP	134	6	(3)	-	137
SPP	62	1	(1)	-	62
Horizon	60	4	(2)	-	62
T o t a l					
Domestic	256	11	(6)	-	261
S C P					
International	18	1	-	1	20
Total	274	12	(6)	1	281

- (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 2007, we consolidated four sales centers and closed two sales centers. One of the consolidations was related to

Horizon's CSL, which was previously counted as a separate sales center location since it served walkup customers directly. In 2007, this customer activity was consolidated with Horizon's nearby sales center and this location now serves exclusively as a CSL. In the fourth quarter of 2007, we consolidated three other sales centers and closed two sales centers.

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The table below identifies the number of sales centers in each state or country by distribution network as of December 31, 2007:

Location	SCP	Superior	Horizon	Total
United States				
California	21	18	21	60
Florida	29	8	-	37
Texas	14	4	13	31
Arizona	5	4	10	19
Georgia	6	2	1	9
Tennessee	4	3	-	7
Alabama	4	2	-	6
Nevada	2	1	3	6
New York	6	-	-	6
Washington	1	-	5	6
Louisiana	5	-	-	5
New Jersey	3	2	-	5
Ohio	2	3	-	5
Colorado	1	1	2	4
Illinois	3	1	-	4
Indiana	2	2	-	4
Missouri	3	1	-	4
North Carolina	3	1	-	4
Oregon	-	-	4	4
Pennsylvania	3	1	-	4
Michigan	2	1	-	3
Oklahoma	2	1	-	3
South Carolina	2	1	-	3
Virginia	2	1	-	3
Arkansas	2	-	-	2
Idaho	-	-	2	2
Kansas	1	1	-	2
Massachusetts	2	-	-	2
Minnesota	1	1	-	2
Connecticut	1	-	-	1
Iowa	1	-	-	1
Kentucky	-	1	-	1
Maryland	1	-	-	1
Mississippi	1	-	-	1
Nebraska	1	-	-	1
New Mexico	1	-	-	1
Utah	-	-	1	1
Wisconsin	-	1	-	1
Total United States	137	62	62	261
International				
Canada	8	-	-	8

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France	5	-	-	5
Portugal	2	-	-	2
United Kingdom	2	-	-	2
Italy	1	-	-	1
Spain	1	-	-	1
Mexico	1	-	-	1
Total International	20	-	-	20
Total	157	62	62	281

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 disposition of any of these matters will have a material adverse impact on our financial condition, results of operations or cash flows.

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

No matters were submitted to a vote of our stockholders during the quarter ended December 31, 2007.

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 22, 2008, there were approximately 14,667 beneficial holders of our common stock. The table below sets forth the high and low sales prices of our common stock as well as dividends declared for each quarter during the last two fiscal years.

	High	Low	Dividends Declared
Fiscal 2007			
First Quarter	\$40.73	\$33.77	\$ 0.105
Second Quarter	42.62	34.85	0.120
Third Quarter	39.09	24.08	0.120
Fourth Quarter	28.24	19.70	0.120
Fiscal 2006			
First Quarter	\$47.67	\$35.42	\$ 0.090
Second Quarter	50.20	39.89	0.105
Third Quarter	46.83	35.35	0.105
Fourth Quarter	42.75	38.01	0.105

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 four times including in the fourth quarter of 2004 and annually in the second quarter of 2005, 2006 and 2007. Payment of future dividends will be at the discretion of our Board, after taking into account various factors, including earnings, capital requirements, financial position, contractual restrictions and other relevant business considerations. We plan to continue to pay quarterly dividends, but there can be no assurance that dividends will be declared or paid any time in the future if our Board deems 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, 2002 and the reinvestment of all dividends. We believe the S&P MidCap 400 Index includes companies with capitalization comparable to ours. Additionally, we chose the S&P MidCap 400 Index for comparison, as opposed to an industry index, because we do not believe that we can reasonably identify a peer group or a published industry or line-of-business index that contains companies in a similar line of business.

Company / Index	Base Period	INDEXED RETURNS				
		12/31/02	12/31/03	12/31/04	12/31/05	12/31/06
Pool Corporation	100	167.88	247.55	291.54	309.84	159.25
S&P MidCap 400 Index	100	135.62	157.97	177.81	196.16	211.81
NASDAQ US Index	100	150.36	163.00	166.58	183.68	201.91

Purchases of Equity Securities

The table below summarizes the repurchases of our common stock in the fourth quarter of 2007.

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, 2007	434,752	\$ 25.07	434,752	\$54,968,410
November 1-30, 2007	-	\$ -	-	\$54,968,410
December 1-31, 2007	-	\$ -	-	\$54,968,410
Total	434,752	\$ 25.07	434,752	

- (1) These shares may include shares of our common stock surrendered to us by employees in order to satisfy minimum tax withholding obligations in connection with certain exercises of employee stock options and/or the exercise price of such options granted under our share based compensation plans. No shares were surrendered in the fourth quarter.
- (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 2007, we purchased a total of \$137.7 million, or 4.1 million shares, at an average price or \$33.51 per share. As of February 22, 2008, \$55.0 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)	2007	2006	2005(2)	2004(2)	2003(2)
Statement of Income Data					
Net sales	\$1,928,367	\$1,909,762	\$1,552,659	\$1,310,853	\$1,155,832
Net income	69,394	95,024	80,455	63,406	48,249
Earnings per share:					
Basic	\$ 1.42	\$ 1.83	\$ 1.53	\$ 1.20	\$ 0.91
Diluted	\$ 1.37	\$ 1.74	\$ 1.45	\$ 1.13	\$ 0.87
Cash dividends declared per common share					
	\$ 0.465	\$ 0.405	\$ 0.34	\$ 0.20	\$ —
Balance Sheet Data(3)					
W o r k i n g capital(4)					
	\$ 250,849	\$ 227,631	\$ 193,525	\$ 128,189	\$ 60,030
Total assets	814,854	774,562	740,850	488,075	455,439
Total long-term debt, including current portion					
	282,525	191,157	129,100	50,420	42,507
Stockholders' equity(5)					
	208,791	277,684	281,724	227,544	200,408
Other					
Base business sales growth(6)					
	(1)%	10%	14%	10%	11%
Number of sales centers					
	281	274	246	201	197

(1) During the years 2003 to 2007, we successfully completed 11 acquisitions consisting of 64 sales centers. For information about our recent acquisitions, see Note 2 of "Notes to Consolidated Financial Statements," included in Item 8 of this Form 10-K.

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

- (3) The 2005 balance sheet data has been adjusted to correct the classification of our deferred tax balances.
- (4) The approximate 51% increase in working capital from 2004 to 2005 is due primarily to a greater amount of early buy inventory purchases that we made and received during the fourth quarter of 2005 and the Horizon acquisition. This increase was partially offset by the deferral of our third and fourth quarter 2005 estimated federal income tax payments. For further discussion, see the “LIQUIDITY AND CAPITAL RESOURCES” section included in Item 7 of this Form 10-K.
- (5) The beginning stockholders’ equity balance in 2007 reflects a reduction to retained earnings of approximately \$0.5 million related to the implementation of FASB Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes, an interpretation of SFAS 109, Accounting for Income Taxes.
- (6) For a discussion regarding our calculation of base business sales growth, 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

2007 FINANCIAL OVERVIEW

Financial Results

Our 2007 financial results were negatively impacted by a difficult combination of external conditions, particularly the depressed housing and real estate markets which intensified throughout 2007. Falling home values across much of the country and tightening credit markets created a significant drop in new construction activities. Unfavorable weather conditions also had an adverse impact during the first half of 2007, both on sales of construction products and on maintenance and repair products. Extended winter conditions delayed the start of the pool season in the Central and Northeast regions. Record wet weather in Texas and Oklahoma caused decreases across customer types, greatly hindering construction and installation activities and affecting replacement and repair activities. Considering the magnitude of these unfavorable external trends, we believe our sales performance compares favorably to 2006 and indicates our success in gaining market share and improving our competitive position.

Base business sales decreased 1% in 2007 as the significant decline in new pool construction permits negatively impacted demand for new pool and irrigation products. This impact was more pronounced in some of our larger markets, most notably in Florida. These sales decreases were partially offset by moderate sales growth for maintenance, repair and replacement products, which comprises the majority of our sales and includes chemicals and parts products. Complementary product sales, which are sold primarily in the new pool construction market, decreased 3% compared to 2006.

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

Our gross profit as a percentage of net sales (gross margin) decreased 80 basis points to 27.5% in 2007 compared to 2006. This decrease reflects the impact of competitive pricing pressures resulting from the current market environment and unfavorable comparisons to 2006 gross margin. In 2006, our gross margin improved by 40 basis points over 2005 due to benefits from our supply chain management initiatives including pre-price increase purchases in the fourth quarter of 2005 and the second quarter of 2006.

Selling and administrative expenses (operating expenses) increased 7% compared to 2006. This increase includes the addition of expenses from the Wickham acquisition in August 2006, investments in 29 new sales centers opened since the beginning of 2006, an increase in bad debt expense, higher expenses related to existing sales center expansions and relocations and higher freight costs. These higher expenses were partially offset by lower incentive compensation and the impact of cost control initiatives.

Our operating income decreased 20% to \$133.8 million in 2007 while operating income as a percentage of net sales (operating margin) decreased to 6.9% from 8.8% in 2006. Interest expense increased 46% for 2007 due to higher debt levels for borrowings to fund share repurchases and a higher average effective interest rate compared to the same period in 2006. Net income decreased 27% to \$69.4 million compared to 2006 and included \$0.9 million of net equity earnings from our investment in Latham Acquisition Corporation (LAC).

Financial Position and Liquidity

Cash provided by operations increased \$2.6 million to \$71.6 million in 2007 due primarily to favorable impacts from changes in working capital balances, which offset the decrease in net income.

Coupled with net proceeds from other financing activities of approximately \$98.5 million, cash provided by operations helped fund the following in 2007:

- share repurchases of \$139.7 million, including \$137.7 million of open market repurchases under our Board authorized repurchase plan;
- the payment of our quarterly cash dividends to shareholders, which we increased in the second quarter of 2007;
 - capital expenditures of \$10.9 million; and
 - financing of over \$10.0 million in working capital for our 12 new sales centers opened in 2007.

Our accounts receivable balance decreased 9% to \$141.1 million at December 31, 2007. Days sales outstanding (DSO) increased between periods to 36.3 days at December 31, 2007 compared to 35.0 days at December 31, 2006. Our allowance for doubtful accounts increased to \$9.9 million at December 31, 2007 from \$4.9 million at December 31, 2006. This increase reflects slower payments from customers in markets that have been adversely impacted by the decline in new pool and irrigation construction.

Our net inventory balance increased \$47.6 million to \$379.7 million at December 31, 2007. The increase reflects inventory for the 12 new sales centers opened in 2007, higher inventory levels attributable to the decline in fourth quarter sales and higher quantities of early buy inventory received in the fourth quarter of 2007 than in the fourth quarter of 2006. Inventory turns, as calculated on a trailing 12 month basis, slowed to 3.7 times in 2007 from 3.9 times in 2006.

Total debt outstanding increased to \$350.9 million at December 31, 2007 compared to \$265.4 million at December 31, 2006. This increase is attributable to increased borrowings to fund our 2007 share repurchases and slightly higher working capital levels. We continue to maintain a healthy current ratio of 1.8, which was unchanged from December 31, 2006.

Current Trends

Current economic trends include a slowdown in the domestic housing market, with lower housing turnover, a sharp drop in new home construction, home value deflation in many markets, decreases in short-term interest rates and a tightening of consumer and commercial credit. Some of the factors that help mitigate the impact of these trends on our business include the following:

- the majority of our business is driven by the ongoing maintenance and repair of existing pools and landscaped areas, with less than 40% of our sales tied to new pool or irrigation construction;
- we estimate that only 10% to 20% of new pools are constructed along with new home construction; and
- we have a low market share with the largest pool builders who we believe are more heavily tied to new home construction.

Despite these mitigating factors, these negative trends had a more pronounced impact during 2007 and have significantly impacted some of our key markets, including Florida, Arizona and parts of California. We believe these trends, along with the impact of unusually wet weather in Texas and Oklahoma and a delay in the start of pool construction in northern markets due to unfavorable weather conditions, resulted in a decrease in new pool construction of approximately 50,000 units, or 25%, in 2007. This followed a decrease of approximately 10,000 units, or 5%, in 2006, representing the first back to back decrease in recent industry history. A continuation or worsening of these trends may have an even greater impact on new pool construction and consumer spending on outdoor living spaces, which could negatively impact our sales and earnings.

OUTLOOK

Our objectives in 2008 include:

- continuing to execute on our business strategies that we believe will provide long-term value to our customers, suppliers and shareholders; and
- exploiting business improvement opportunities available to us while maintaining tight control over our expenses.

We believe the prolonged downturn in real estate markets and restricted access to credit, coupled with the uncertain general economic environment, will continue to adversely impact new pool and irrigation construction. Given the challenges in the external environment, we will not provide any earnings per share guidance until we gain more visibility for how our 2008 results are tracking.

We expect to generate sufficient cash flow and have adequate access to capital to both fund our business objectives and provide a direct return to our shareholders in the form of dividend payments.

Our business is subject to significant risks, including weather, competition, general economic conditions and other risks as 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 geographical 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 0.1% of net sales.

If the balance of the accounts receivable reserve increased or decreased by 20% at December 31, 2007, pretax income would change by approximately \$1.2 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, 2007.

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, excluding special order products not yet delivered to the customer
Null class	non-stock special order items

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

excess of the previous 12 months usage, on a company-wide basis.

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

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

Our reserve for inventory obsolescence may periodically require adjustment as changes occur in the above-identified factors.

If the balance of our inventory reserve increased or decreased by 20% at December 31, 2007, pretax income would change by approximately \$0.7 million and earnings per share would change by approximately \$0.01 per diluted share based on the number of diluted shares outstanding at December 31, 2007.

Vendor Incentives

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

Throughout the year, we estimate the amount of the incentive earned based on our estimate of cumulative purchases for the fiscal year relative to the purchase levels that mark our progress toward earning the incentives. We accrue vendor incentives on a monthly basis using these estimates provided that we determine they are probable and reasonably estimable. Our estimates for cumulative purchases and sales of qualifying products are driven by our sales projections, which can be significantly impacted by a number of external factors including weather and changes in economic conditions. Changes in our purchasing mix also impact our incentive estimates, as incentive rates can vary depending on our volume of purchases from specific vendors. We continually revise these estimates throughout the year to reflect actual purchase levels and 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, 2007, and in accordance with the provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) 109, Accounting for Income Taxes, United States taxes were

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

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

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

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

Incentive Compensation Accrual

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

The objectives for our bonus plans are set at the inception 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 bonus plan objectives and management's estimates related to the discretionary components of the bonus plans. Due to both the discretionary components of the bonus plans and the timing of the approval and payment of the annual bonuses, our estimated quarterly incentive compensation expense and accrual balances may vary relative to actual annual bonus expense and payouts.

Goodwill

Our largest intangible asset is goodwill. At December 31, 2007, our goodwill balance was \$155.2 million, representing 19% of total assets. Goodwill represents the excess of the amount we paid to acquire a company over the estimated fair value of tangible assets and identifiable intangible assets acquired, less liabilities assumed.

We account for goodwill under the provisions of SFAS 142, Goodwill and Other Intangible Assets. Under these rules, we test goodwill for impairment annually or on a more frequent basis if events or changes in circumstances occur that indicate potential impairment. If the estimated fair value of any of our reporting units has fallen below their carrying value, we will 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 will recognize the difference as an impairment loss in operating income.

Our goodwill impairment test requires a comparison of the estimated fair value of each reporting unit to its carrying value, including goodwill. We estimate the fair value of our reporting units based on a discounted cash flow approach, which requires us to make several assumptions about projected future cash flows and appropriate discount rates. If our assumptions or estimates change, we could incur charges in future periods for goodwill impairment.

In October 2007, we completed our annual goodwill impairment test and determined there was no impairment.

Recent Accounting Pronouncements

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

RESULTS OF OPERATIONS

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

	Year Ended December 31,		
	2007	2006	2005
Net sales	100.0%	100.0%	100.0%
Cost of sales	72.5	71.7	72.1
Gross profit	27.5	28.3	27.9
Selling and administrative expenses	20.6	19.5	19.1
Operating income	6.9	8.8	8.7
Interest expense, net	1.1	0.8	0.4
Income before income taxes and equity earnings	5.8	8.0	8.3

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

Our discussion of consolidated operating results includes the operating results from acquisitions in 2007, 2006 and 2005. We accounted for these acquisitions using the purchase method of accounting and we have included the results of operations in our consolidated results since the respective acquisition dates.

Fiscal Year 2007 compared to Fiscal Year 2006

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

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

We exclude the following sales centers from our base business results for a period of 15 months:

- acquired sales centers;
- sales centers divested or consolidated with acquired sales centers; and
- sales centers opened in new markets.

Additionally, we generally allocate overhead expenses to acquired and new market sales centers on the basis of their net sales as a percentage of total net sales.

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

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

- (1) After 15 months of operations, we include acquired and new market sales centers in the base business calculation including the comparative prior year period.

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

Net Sales

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

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

Demand for pool and irrigation construction products was impacted by the weak housing market, tightening credit markets and unfavorable weather conditions. New pool construction permits declined significantly throughout 2007, especially in our key Florida, Arizona and California markets. Net sales were also adversely impacted by the competitive pricing pressures experienced in the current market environment.

Our sales growth for maintenance, repair and replacement products was primarily due to the following:

- the continued successful execution of our sales, marketing and service programs, resulting in market share gains;
- the growing installed base of swimming pools, which resulted in increased sales of non-discretionary products; and
- price increases, primarily the impact in the first half of 2007 of our mid-year 2006 inflationary increases, which we passed through the supply chain.

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

Gross Profit

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

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

Our 2007 gross margin is comparatively lower primarily due to the following impacts:

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

Operating Expenses

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

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

- incremental expenses for the 29 new sales centers that we have opened since the beginning of 2006;
 - higher rent expenses related to our expansion or relocation of numerous sales centers;
 - increases in bad debt expense during the last nine months of 2007;
 - higher freight costs; and
 - additional expenses for our investments in other growth initiatives.

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

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

Interest Expense

Interest expense increased \$7.0 million between periods as average debt outstanding was 41% higher in 2007 compared to 2006. The higher debt levels in 2007 reflect increased borrowings to fund share repurchases. The weighted average effective interest rate also increased to 6.0% in 2007 from 5.8% in 2006.

Income Taxes

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

Net Income and Earnings Per Share

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

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Fiscal Year 2006 compared to Fiscal Year 2005

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

(Unaudited) (In thousands)	Base Business		Acquired & New Market		Total	
	Year Ended		Year Ended		Year Ended	
	December 31,		December 31,		December 31,	
	2006	2005	2006	2005	2006	2005
Net sales	\$1,653,475	\$1,501,096	\$256,287	\$51,563	\$1,909,762	\$1,552,659
Gross profit	465,942	417,195	74,006	15,253	539,948	432,448
Gross margin	28.2%	27.8%	28.9%	29.6%	28.3%	27.9%
Selling and administrative expenses	316,617	284,443	55,949	12,642	372,566	297,085
Expenses as a % of net sales	19.1%	18.9%	21.8%	24.5%	19.5%	19.1%
Operating income	149,325	132,752	18,057	2,611	167,382	135,363
Operating margin	9.0%	8.8%	7.0%	5.1%	8.8%	8.7%

Please refer to the discussion of base business exclusions under the heading “Fiscal Year 2007 compared to Fiscal Year 2006” above.

For purposes of comparing operating results for the year ended December 31, 2006 to the year ended December 31, 2005, we have excluded 58 acquired sales centers from base business for the periods identified in the table below and an average of three sales centers opened in new markets, all which remain excluded as of December 31, 2006.

Acquired	Acquisition Date	Sales Centers	
		Acquired	Period Excluded(1)
Wickham Supply, Inc. and Water Zone, LP	August 2006	14	August - December 2006
Horizon Distributors, Inc.	October 2005	40	October - December 2005 and January - December 2006
B&B s.r.l. (Busatta)	October 2005	1	November - December 2005 and January - December 2006
Direct Replacements, Inc.	October 2005	1	November - December 2005 and January - December 2006

Net Sales

(in millions)	Year Ended December 31,		
	2006	2005	Change
Net sales	\$1,909.8	\$1,552.7	\$357.1 23%

The increase in net sales is primarily a result of the Horizon acquisitions and the growth in our base business.

Base business sales growth was 10% in 2006 due primarily to the following:

- a larger installed base of swimming pools resulting in increased sales of non-discretionary products;
 - estimated price increases of 3% to 4% that we passed through the supply chain;
 - the continued successful execution of our sales, marketing and service programs;
 - 26% growth in complementary product sales; and
 - the opening of nine new base business sales center locations.

New product initiatives continue to be focused on our complementary products category, for which sales have grown from \$3.0 million in 1999 to \$180.1 million in 2006. These products, which our customers historically purchased from other suppliers, carry gross margins comparable to our traditional product categories. We no longer include Horizon's sales in our complementary product calculations.

Gross Profit

(in millions)	Year Ended December 31,		
	2006	2005	Change
Gross profit	\$ 539.9	\$ 432.4	\$107.5 25%
Gross margin	28.3%	27.9%	

Base business gross profit growth of 12% contributed \$48.7 million to the increase in 2006, while acquired sales centers accounted for most of the remaining increase.

Gross margin increased 40 basis points in 2006 due primarily to the benefits achieved through our supply chain management initiatives, including our pre-price increase inventory purchases in the fourth quarter of 2005 and second quarter of 2006. We made aggressive early buy purchases during the fourth quarter of 2005 to take advantage of price discounts and to mitigate the impact of expected 2006 price increases, and we made additional pre-price increase purchases during the second quarter of 2006 that benefited our third quarter gross margins.

Our gross margin improvement also includes slightly higher margin contribution from acquired businesses and a small favorable product mix shift in 2006 to higher margin products, which is attributable to our successful sales initiatives including our expansion of parts and complementary product offerings. The overall increase in gross margin was partially offset by lower earned vendor incentives as a percentage of total net sales in 2006. This decrease reflects a lower aggregate vendor incentive rate compared to 2005 and a slight decrease between years in our annual purchase volumes as a percentage of total net sales. The decrease in rate is due to lower incentives as a percentage of total net sales for our acquired businesses and a shift in purchasing mix to products with lower incentives, primarily complementary products.

Operating Expenses

(in millions)	Year Ended December 31,		
	2006	2005	Change
Operating expenses	\$ 372.6	\$ 297.1	\$ 75.5 25%
Operating expenses as a percentage of net sales	19.5%	19.1%	

Operating expenses grew 25% and as a percentage of net sales increased 40 basis points in 2006 due primarily to higher expense ratios for our recently acquired businesses and start-up costs and higher expense ratios for new sales centers opened in 2006. We opened 17 sales centers in 2006 compared to only three sales centers in 2005. The 17 new locations include 11 new pool sales centers and six new Horizon sales centers. Expenses related to other investments in our business also contributed to the increase in operating expenses. We moved 24 existing sales centers to bigger locations, expanded another 16 existing sales center locations, opened two new construction material distribution centers and also launched two new value-added customer programs, among other new company initiatives in 2006. These increases in operating expenses were partially offset by lower employee bonuses in 2006 of approximately \$4.0 million.

Interest Expense

Interest expense increased \$8.8 million between periods as average debt outstanding was 79% higher in 2006 compared to 2005. The higher debt levels in 2006 reflect increased borrowings to fund share repurchases, acquisitions and higher working capital levels. The weighted average effective interest rate also increased to 5.8% in 2006 from 4.3% in 2005.

Income Taxes

Income taxes increased to \$58.8 million in 2006 from \$49.9 million in 2005 due to the \$23.3 million increase in income before income taxes and equity earnings. Our effective income tax rate was 38.61% at December 31, 2006 and 38.74% at December 31, 2005 as adjusted for the impact of share-based compensation expense.

Net Income and Earnings Per Share

Net income increased 18% to \$95.0 million in 2006 from \$80.5 million in 2005. Net income in 2006 included \$1.6 million of net equity earnings from our investment in LAC. Diluted earnings per share increased 20% to \$1.74 per share in 2006 from \$1.45 per share in 2005.

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 2007, approximately 65% of our net sales and over 100% of our operating income were generated in the second and third quarters of the year.

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

The following table presents certain unaudited quarterly data for 2007 and 2006. 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							
	2007				2006			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Statement of Income Data								
Net sales	\$373,706	\$726,472	\$527,434	\$300,755	\$348,556	\$705,703	\$537,017	\$318,486
Gross profit	103,485	207,922	139,803	79,436	98,048	209,000	149,995	82,905
Operating income (loss)	8,632	98,433	39,505	(12,796)	15,022	103,338	53,092	(4,070)
Net income (loss)	1,354	57,794	21,835	(11,589)	6,422	62,110	31,493	(5,001)
Net sales as a % of annual net sales	19%	38%	27%	16%	18%	37%	28%	17%
Gross profit as a % of annual gross profit	20%	39%	26%	15%	18%	39%	28%	15%
Operating income (loss) as a % of annual operating	6%	74%	30%	(10)%	9%	62%	32%	(3)%

income

Balance

Sheet Data

Total									
receivables,									
net	\$ 231,034	\$ 301,265	\$ 200,534	\$ 141,117	\$ 211,578	\$ 295,722	\$ 211,589	\$ 154,937	
Product									
inventories,									
net	413,161	388,364	317,110	379,663	406,310	367,096	283,930	332,069	
Accounts									
payable	325,448	229,691	127,889	194,178	267,296	207,727	111,349	177,544	
Total debt	358,522	425,599	406,465	350,852	236,188	303,000	257,974	265,443	

In the third and fourth quarters of 2006 and full year 2007, our results of operations include the 14 Wickham sales centers that we acquired in August 2006. 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. We attempt to open new sales centers at the end of the fourth quarter or the first quarter of the subsequent year to take advantage of preseason sales programs and the following peak selling season.

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

- cash flows generated from operating activities;

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- the adequacy of available bank lines of credit;
 - acquisitions;
- the timing and extent of share repurchases;
 - capital expenditures;
 - dividend payments; and
- the ability to attract long-term capital with satisfactory terms.

Our primary capital needs are seasonal working capital obligations and other general corporate purposes, including acquisitions, share repurchases and dividend payments. Our primary sources of working capital are cash from operations supplemented by bank borrowings, which combined with seller financing have historically been sufficient to support our growth and finance acquisitions. The same principle applies to funds used for share repurchases and capital expenditures. We prioritize our use of cash based on investing in our business, returning money to our shareholders and maintaining a prudent debt structure. Our specific priorities for the use of cash are as follows:

- maintenance and new sales center capital expenditures estimated at 0.5% to 0.75% of net sales;
 - strategic acquisitions executed opportunistically;
 - payment of cash dividends as and when declared by the Board;
- repurchase of common stock within Board defined parameters; and
 - repayment of debt.

Sources and Uses of Cash

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

	Year Ended December	
	31,	
	2007	2006
Operating activities	\$ 71,644	\$ 69,010
Investing activities	(12,638)	(41,439)
Financing activities	(63,957)	(41,586)

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

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

Our 2006 cash provided by operations increased \$29.6 million compared to 2005 due primarily to the increase in net income and the impact related to our fourth quarter 2005 early buy purchases. In 2005, our cash provided by operations was negatively impacted by early buy inventory purchases that we received and paid for in the fourth quarter of 2005. This impact is reflected in the net change in our inventory and accounts payable balances between periods, but the benefit to our 2006 cash provided by operations was largely offset by the decrease in accrued expenses which included a \$27.0 million payment for estimated federal tax payments that were deferred from the second half of 2005 as allowed by the Katrina Emergency Tax Relief Act of 2005. The remaining increase in cash provided by operations is attributable to the change in our accounts receivable balance between periods.

Future Sources and Uses of Cash

As amended on December 20, 2007, our unsecured syndicated senior credit facility (the Credit Facility) now provides for \$300.0 million in borrowing capacity including a \$240.0 million five-year revolving credit facility (the Revolver) and a \$60.0 million term loan (the Term Loan). The Term Loan matures on December 20, 2010 and the Revolver matures on December 20, 2012. The Credit Facility includes sublimits for the issuance of swingline loans and standby letters of credit. Pursuant to an accordion feature, the aggregate maximum principal amount of the commitments under the Revolver may be increased from time to time, by up to \$75.0 million, to a total of \$315 million.

At December 31, 2007, there was \$125.5 million outstanding and \$114.0 million available for borrowing under the Revolver. The weighted average effective interest rate on the Revolver was approximately 6.4% for the year ended December 31, 2007.

At December 31, 2007, there was \$57.0 million outstanding under the Term Loan of which \$3.0 million is classified as current. In December 2005, we entered into an interest rate swap agreement to reduce our exposure to fluctuations in interest rates. The swap agreement converts our variable rate Term Loan to a fixed-rate basis until its termination on December 31, 2008. We have designated this swap as a cash flow hedge. During the year ended December 31, 2007, no gains or losses were recognized on this swap. The weighted average effective interest rate of the Term Loan was approximately 5.7% for the year ended December 31, 2007.

In March 2007, we renewed our accounts receivable securitization facility (the Receivables Facility), which provides a seasonal borrowing capacity of up to \$150.0 million, through March 2008. The Receivables Facility provides for the true sale of certain of our receivables as they are created to a wholly owned, bankruptcy-remote subsidiary. This subsidiary grants an undivided security interest in the receivables to an unrelated commercial paper conduit. Because of the structure of the bankruptcy-remote subsidiary and our ability to control its activities, we include the transferred receivables and related debt in our Consolidated Balance Sheets. We continue to employ this arrangement because it provides us with a lower cost form of financing. At December 31, 2007, there was \$68.3 million outstanding under the Receivables Facility at a weighted average effective interest rate of 6.0%. We intend to renew the Receivables Facility in March 2008 with comparable or similar terms, and we do not have any reason to believe that we will not be able to do so.

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

As of December 31, 2007, we were in compliance with all covenants and financial ratio requirements related to our Credit Facility, our Notes and our Receivables Facility. For additional information regarding our debt arrangements, see Note 5 of "Notes to Consolidated Financial Statements," included in Item 8 of this Form 10-K.

Our Board increased the authorization for the repurchase of shares of our common stock in the open market during 2007, including an increase to \$100.0 million in August 2007. As of February 22, 2008, \$55.0 million of the authorized amount remained available. We intend to continue to repurchase shares on the open market from time to time, depending on market conditions. We may use cash flows from operations to fund these purchases, or we may incur additional debt.

We believe we have adequate availability of capital to fund present operations and anticipated growth, including expansion in existing and targeted market areas. We continually evaluate potential acquisitions and hold discussions with acquisition candidates. If suitable acquisition opportunities or working capital needs arise that would require additional financing, we believe that our financial position and earnings history provide a solid base for obtaining additional financing resources at competitive rates and terms. Additionally, we may issue common or preferred stock to raise funds.

Contractual Obligations

At December 31, 2007, our contractual obligations for long-term debt, short-term financing and operating leases were as follows (in thousands):

	Total	Less than 1 year	Payments due by period		
			1-2 years	3-4 years	5 years and thereafter
Long-term debt	\$ 282,525	\$ 3,000	\$ 6,000	\$ 48,000	\$ 225,525
Short-term financing	68,327	68,327	—	—	—

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Operating leases	201,844	46,754	75,130	45,102	34,858
	\$552,696	\$118,081	\$ 81,130	\$ 93,102	\$ 260,383

This table does not include estimated future interest expense related to long-term debt and short-term financing. For additional discussion related to our debt, see Note 5 of “Notes to Consolidated Financial Statements,” included in Item 8 of this Form 10-K.

We have minimum purchase requirements under a limited number of vendor agreements, primarily those related to the purchase of chemicals. Since these requirements are either based on a percentage of our total purchases for a product category or a minimum number of pounds of chemicals at prevailing market prices, the amounts of these contractual obligations are not reasonably estimatable as of December 31, 2007 and therefore are not included in the table above.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rate Risk

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

If (i) the variable rates on our Revolver and our Receivables Facility increased or decreased 1.0% from the rate at December 31, 2007; and (ii) we borrowed the maximum amount available as of December 31, 2007 under the Revolver (\$315.0 million assuming that we exercised the \$75.0 million accordion feature) and the Receivables Facility (\$150.0 million) for all of 2007, then our pretax income would change by approximately \$4.7 million and earnings per share would change by \$0.06 per diluted share based on the number of weighed average diluted shares outstanding at December 31, 2007.

Currency Risk

We have wholly owned subsidiaries in Canada, Mexico, the United Kingdom, France, Portugal, Spain and Italy. In the past, we have not hedged our currency exposure, and fluctuations in exchange rates have not materially affected our operating results. Future changes in exchange rates may positively or negatively impact our revenues, operating expenses and earnings. Due to the size of our international operations, however, we do not anticipate that exposure to currency rate fluctuations will be material in 2008.

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

Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Pool Corporation

We have audited the accompanying consolidated balance sheets of Pool Corporation as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pool Corporation at December 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Pool Corporation's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 29, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New Orleans, Louisiana
February 29, 2008

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

	Year Ended December 31,		
	2007	2006	2005 (As Adjusted - See Note 7)
Net sales	\$ 1,928,367	\$ 1,909,762	\$ 1,552,659
Cost of sales	1,397,721	1,369,814	1,120,211
Gross profit	530,646	539,948	432,448
Selling and administrative expenses	396,872	372,566	297,085
Operating income	133,774	167,382	135,363
Interest expense, net	22,148	15,196	6,434
Income before income taxes and equity earnings	111,626	152,186	128,929
Provision for income taxes	43,154	58,759	49,941
Equity earnings in unconsolidated investments, net	922	1,597	1,467
Net income	\$ 69,394	\$ 95,024	\$ 80,455
Earnings per share:			
Basic	\$ 1.42	\$ 1.83	\$ 1.53
Diluted	\$ 1.37	\$ 1.74	\$ 1.45
Weighted average shares outstanding:			
Basic	48,887	51,866	52,445
Diluted	50,802	54,662	55,665
Cash dividends declared per common share			
	\$ 0.465	\$ 0.405	\$ 0.34

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

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

December 31,
2007 2006

Assets		
Current assets:		
Cash and cash equivalents	\$ 15,825	\$ 16,734
Receivables, net	45,257	51,116
Receivables pledged under receivables facility	95,860	103,821
Product inventories, net	379,663	332,069
Prepaid expenses and other current assets	8,265	8,005
Deferred income taxes	9,139	7,676
Total current assets	554,009	519,421
Property and equipment, net	34,223	33,633
Goodwill	155,247	154,244
Other intangible assets, net	14,504	18,726
Equity interest investments	33,997	32,509
Other assets, net	22,874	16,029
Total assets	\$ 814,854	\$ 774,562
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 194,178	\$ 177,544
Accrued expenses and other current liabilities	37,216	35,610
Short-term financing	68,327	74,286
Current portion of long-term debt and other long-term liabilities	3,439	4,350
Total current liabilities	303,160	291,790
Deferred income taxes	17,714	15,023
Long-term debt	279,525	188,157
Other long-term liabilities	5,664	1,908
Total liabilities	606,063	496,878
Stockholders' equity:		
Common stock, \$.001 par value; 100,000,000 shares authorized; 47,516,989 and 50,929,665 shares issued and outstanding at December 31, 2007 and 2006, respectively	47	50
Additional paid-in capital	171,996	148,821
Retained earnings	29,044	129,932
Treasury stock	—	(7,334)
Accumulated other comprehensive income	7,704	6,215
Total stockholders' equity	208,791	277,684

Total liabilities and stockholders' equity	\$ 814,854	\$ 774,562
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The accompanying Notes are an integral part of these Consolidated Financial Statements.

POOL CORPORATION
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2007	2006	2005 (As Adjusted - See Note 7)
Operating activities			
Net income	\$ 69,394	\$ 95,024	\$ 80,455
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	9,289	8,162	5,410
Amortization	4,694	4,742	3,998
Share-based compensation	7,398	7,204	5,966
Excess tax benefits from share-based compensation	(8,482)	(14,627)	(13,473)
Provision for doubtful accounts receivable, net of write-offs	5,047	1,217	(332)
Provision for inventory obsolescence, net	610	902	115
Change in deferred income taxes	(3,747)	(4,521)	(7,292)
Loss on sale of property and equipment	56	73	133
Equity earnings in unconsolidated investments	(1,523)	(2,602)	(2,386)
Other	(40)	—	—
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:			
Receivables	8,822	(5,301)	(13,394)
Product inventories	(48,001)	5,882	(103,579)
Prepaid expenses and other assets	(870)	(1,054)	(934)
Accounts payable	16,505	(5,269)	41,932
Accrued expenses and other current liabilities	12,492	(20,822)	42,834
Net cash provided by operating activities	71,644	69,010	39,453
Investing activities			
Acquisition of businesses, net of cash acquired	(2,087)	(26,662)	(89,963)
Equity interest investments	—	—	(3,539)
Proceeds from sale of investment	75	—	—
Purchase of property and equipment, net of sale proceeds	(10,626)	(14,777)	(8,361)
Net cash used in investing activities	(12,638)	(41,439)	(101,863)

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Financing activities			
Proceeds from revolving line of credit	477,246	442,495	364,383
Payments on revolving line of credit	(482,878)	(380,438)	(345,703)
Proceeds from asset-backed financing	87,479	93,347	67,133
Payments on asset-backed financing	(93,438)	(84,718)	(44,071)
Proceeds from long-term debt	100,000	—	60,000
Payments on long-term debt and other long-term liabilities	(4,321)	(1,514)	(1,350)
Payments of capital lease obligations	(257)	(257)	—
Payment of deferred financing costs	(1,152)	(156)	(243)
Excess tax benefits from share-based compensation	8,482	14,627	13,473
Issuance of common stock under stock plans	7,292	7,220	4,481
Payments of cash dividends	(22,734)	(21,080)	(17,862)
Purchases of treasury stock	(139,676)	(111,112)	(32,091)
Net cash provided by (used in) financing activities	(63,957)	(41,586)	68,150
Effect of exchange rate changes on cash	4,042	3,883	(636)
Change in cash and cash equivalents	(909)	(10,132)	5,104
Cash and cash equivalents at beginning of year	16,734	26,866	21,762
Cash and cash equivalents at end of year	\$ 15,825	\$ 16,734	\$ 26,866

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

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

Supplemental cash flow information	Year Ended December 31,		
	2007	2006	2005
Cash paid during the year for:			
Interest	\$ 21,321	\$ 14,823	\$ 5,660
Income taxes, net of refunds	30,509	74,822	14,313

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

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

(2004 and 2005 as adjusted - see Note 7)

	Common Stock Shares	Common Stock Amount	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2004	52,186	52	—	95,358	129,260	2,874	227,544
Net income	—	—	—	—	80,455	—	80,455
Foreign currency translation	—	—	—	—	—	(634)	(634)
Interest rate swap, net of tax of \$63	—	—	—	—	—	(101)	(101)
Comprehensive income, net of tax							79,720
Treasury stock, 964 shares of common stock	—	—	(32,091)	—	—	—	(32,091)
Retirement of treasury shares	(939)	(1)	31,170	—	(31,169)	—	—
Share-based compensation	—	—	—	6,458	—	—	6,458
Exercises of stock options including tax benefit of \$13,473	1,124	1	—	16,757	—	—	16,758
Declaration of cash dividends	—	—	—	—	(17,862)	—	(17,862)
Employee stock purchase plan	44	—	—	1,197	—	—	1,197
Balance at December 31, 2005	52,415	52	(921)	119,770	160,684	2,139	281,724
Net income	—	—	—	—	95,024	—	95,024
Foreign currency translation	—	—	—	—	—	3,854	3,854
Interest rate swap, net of tax of \$139	—	—	—	—	—	222	222
Comprehensive income, net of tax							99,100
Treasury stock, 2,778 shares of common stock	—	—	(111,112)	—	—	—	(111,112)
Retirement of treasury shares	(2,616)	(3)	104,699	—	(104,696)	—	—
Share-based compensation	—	—	—	7,204	—	—	7,204

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Exercise of stock options including tax benefit of \$14,627	1,072	1	—	19,948	—	—	19,949
Declaration of cash dividends	—	—	—	—	(21,080)	—	(21,080)
Employee stock purchase plan	58	—	—	1,899	—	—	1,899
Balance at December 31, 2006	50,929	50	(7,334)	148,821	129,932	6,215	277,684
Net income	—	—	—	—	69,394	—	69,394
Foreign currency translation	—	—	—	—	—	4,042	4,042
Interest rate swap, net of tax of \$1,606	—	—	—	—	—	(2,553)	(2,553)
Comprehensive income, net of tax							70,883
Treasury stock, 4,165 shares of common stock	—	—	(139,676)	—	—	—	(139,676)
Retirement of treasury shares	(4,351)	(4)	147,010	—	(147,006)	—	—
FIN 48 cumulative adjustment	—	—	—	—	(542)	—	(542)
Share-based compensation	—	—	—	7,398	—	—	7,398
Exercise of stock options including tax benefit of \$8,482	839	1	—	14,544	—	—	14,545
Declaration of cash dividends	—	—	—	—	(22,734)	—	(22,734)
Issuance of restricted stock	62	—	—	—	—	—	—
Employee stock purchase plan	37	—	—	1,233	—	—	1,233
Balance at December 31, 2007	47,516	47	—	171,996	29,044	7,704	208,791

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

POOL CORPORATION
Notes to Consolidated Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies

Description of Business

As of December 31, 2007, Pool Corporation and its wholly owned subsidiaries (the Company, which may be referred to as POOL, we, us or our), maintained 281 sales centers in North America and Europe from which we sell swimming pool equipment, parts and supplies and irrigation and landscape products to pool builders, retail stores, service companies, landscape contractors and golf courses. We distribute products through three networks: The SCP Distributors (SCP) network, the Superior Pool Products (Superior) network and the Horizon Distributors (Horizon) network.

Basis of Presentation and Principles of Consolidation

We prepared the Consolidated Financial Statements following U.S. generally accepted accounting principles (GAAP) and the requirements of the Securities and Exchange Commission (SEC). The financial statements include all normal and recurring adjustments that are necessary for a fair presentation of our financial position and operating results.

The Consolidated Financial Statements include the accounts of Pool Corporation and our wholly owned subsidiaries. We eliminated all significant intercompany accounts and transactions among our wholly owned subsidiaries. We account for our 38% investment in Latham Acquisition Corporation (LAC), which was a 42% interest when acquired in December 2004, and our 50% investment in Northpark Corporate Center, LLC (NCC) using the equity method of accounting. Accordingly, we report our share of income or loss based on our ownership interests in these investments.

Use of Estimates

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

Segment Reporting

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

Seasonality and Weather

Our business is highly seasonal and weather is one of the principal external factors affecting our business. In general, sales and net income are highest during the second and third quarters, which represent the peak months of both swimming pool use and installation and landscape installations and maintenance. Sales are substantially lower during the first and fourth quarters when we may incur net losses.

Earnings Per Share