POOL CORP
Form 10-Q
October 31, 2008

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

FORM 10-Q

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

For the quarterly period ended September 30, 2008

or

o 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	36-3943363
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
109 Northpark Boulevard, Covington, Louisiana	70433-5001
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

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

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

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

At October 24, 2008, there were 47,937,017 outstanding shares of the registrant's common stock, $.001 par value per share.

POOL CORPORATION
Form 10-Q
For the Quarter Ended September 30, 2008

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net sales	$493,530	$527,434	$1,524,717	$1,627,612
Cost of sales	351,730	387,631	1,084,811	1,176,402
Gross profit	141,800	139,803	439,906	451,210
Selling and administrative expenses	103,183	100,298	309,102	304,640
Operating income	38,617	39,505	130,804	146,570
Interest expense, net	4,589	6,349	14,700	16,765
Income before income taxes and equity earnings	34,028	33,156	116,104	129,805
Provision for income taxes	13,675	12,802	45,397	50,118
Equity earnings in unconsolidated investments, net	1,707	1,481	1,044	1,296
Net income	$ 22,060	$ 21,835	$ 71,751	$ 80,983
Earnings per share:				
Basic	$ 0.46	$ 0.45	$ 1.50	$ 1.64
Diluted	$ 0.45	$ 0.43	$ 1.47	$ 1.58
Weighted average shares outstanding:				
Basic	47,824	48,623	47,694	49,372
Diluted	49,060	50,490	48,735	51,347
Cash dividends declared per common share	$ 0.13	$ 0.12	$ 0.38	$ 0.345

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

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

	September 30, 2008	September 30, 2007	December 31, 2007
Assets			
Current assets:			
Cash and cash equivalents	$ 25,278	$ 50,265	$ 15,825
Receivables, net	45,426	58,023	45,257
Receivables pledged under receivables facility	133,501	142,511	95,860
Product inventories, net	345,944	317,110	379,663
Prepaid expenses and other current assets	7,915	9,004	8,265
Deferred income taxes	9,139	7,652	9,139
Total current assets	567,203	584,565	554,009
Property and equipment, net	32,895	35,518	34,223
Goodwill	167,376	155,247	155,247
Other intangible assets, net	13,519	15,459	14,504
Equity interest investments	35,592	34,561	33,997
Other assets, net	25,299	19,073	22,874
Total assets	$ 841,884	$ 844,423	$ 814,854
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	$ 128,329	$ 127,889	$ 194,178
Accrued and other current liabilities	80,636	53,557	37,216
Short-term financing	58,392	110,715	68,327
Current portion of long-term debt and other long-term liabilities	5,369	3,350	3,439
Total current liabilities	272,726	295,511	303,160
Deferred income taxes	18,608	15,185	17,714
Long-term debt	274,100	292,750	279,525
Other long-term liabilities	6,225	6,152	5,664
Total liabilities	571,659	609,598	606,063
Stockholders' equity:			
Common stock, $.001 par value; 100,000,000 shares authorized; 47,931,394, 47,928,454 and			

47,516,989 shares issued and outstanding at September 30, 2008, September 30, 2007 and December 31, 2007, respectively	47	48	47
Additional paid-in capital	183,677	169,886	171,996
Retained earnings	79,920	64,344	29,044
Treasury stock	—	(7,110)	—
Accumulated other comprehensive income	6,581	7,657	7,704
Total stockholders' equity	270,225	234,825	208,791
Total liabilities and stockholders' equity	$ 841,884	$ 844,423	$ 814,854

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

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

	Nine Months Ended September 30,	
	2008	2007
Operating activities		
Net income	$ 71,751	$ 80,983
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,182	6,868
Amortization	3,196	3,665
Share-based compensation	5,493	5,564
Excess tax benefits from share-based compensation	(2,452)	(8,345)
Equity earnings in unconsolidated investments	(1,635)	(2,087)
Other	1,393	3,476
Changes in operating assets and liabilities, net of effects of acquisitions:		
Receivables	(33,908)	(49,373)
Product inventories	47,545	14,580
Accounts payable	(67,940)	(49,743)
Other current assets and liabilities	45,910	27,927
Net cash provided by operating activities	76,535	33,515
Investing activities		
Acquisition of businesses, net of cash acquired	(32,891)	(2,087)
Divestiture of business	1,165	—
Purchase of property and equipment, net of sale proceeds	(4,999)	(9,407)
Proceeds from sale of investment	—	75
Net cash used in investing activities	(36,725)	(11,419)
Financing activities		
Proceeds from revolving line of credit	276,826	306,771
Payments on revolving line of credit	(277,751)	(299,928)
Proceeds from asset-backed financing	73,335	87,479
Payments on asset-backed financing	(83,270)	(51,050)
Proceeds from long-term debt	—	100,000
Payments on long-term debt and other long-term liabilities	(2,385)	(3,320)
Payments of capital lease obligations	(251)	(257)
Payments of deferred financing costs	(22)	(397)
Excess tax benefits from share-based compensation	2,452	8,345
Proceeds from issuance of common stock under share-based compensation plans	3,736	7,154
Payments of cash dividends	(18,187)	(17,033)
Purchases of treasury stock	(3,244)	(128,777)
Net cash (used in) provided by financing activities	(28,761)	8,987
Effect of exchange rate changes on cash	(1,596)	2,448

Change in cash and cash equivalents	9,453	33,531
Cash and cash equivalents at beginning of period	15,825	16,734
Cash and cash equivalents at end of period	$ 25,278	$ 50,265

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

POOL CORPORATION
Notes to Consolidated Financial Statements
(Unaudited)

Note 1 – Summary of Significant Accounting Policies

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

A description of our significant accounting policies is included in our 2007 Annual Report on Form 10-K. The Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and accompanying notes in our Annual Report. The results for the three and nine month periods ended September 30, 2008 are not necessarily indicative of the results to be expected for the twelve months ending December 31, 2008.

Recent Accounting Pronouncements

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

Note 2 – Earnings Per Share

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income	$ 22,060	$ 21,835	$ 71,751	$ 80,983
Weighted average common shares outstanding:				
Basic	47,824	48,623	47,694	49,372
Effect of dilutive securities:				
Stock options	1,176	1,815	984	1,922
	57	50	54	51

	Restricted stock awards				
	Employee stock purchase plan	3	2	3	2
Diluted		49,060	50,490	48,735	51,347
Basic earnings per share		$ 0.46	$ 0.45	$ 1.50	$ 1.64
Diluted earnings per share		$ 0.45	$ 0.43	$ 1.47	$ 1.58

POOL CORPORATION
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

The weighted average diluted shares outstanding for the three and nine months ended September 30, 2008 exclude stock options to purchase 1,530,442 shares and 2,150,386 shares, respectively. The weighted average diluted shares outstanding for the three and nine months ended September 30, 2007 exclude stock options to purchase 1,089,125 shares and 1,085,975 shares, respectively. Since these options have exercise prices that are higher than the average market price of our common stock, including them in the calculation would have an anti-dilutive effect on earnings per share for the respective periods.

Note 3 – Acquisitions

In March 2008, we acquired National Pool Tile Group, Inc. (NPT), a leading wholesale distributor of pool tile and composite pool finishes serving professional contractors in the swimming pool refurbish and construction markets through 15 distribution sales centers. As of June 30, 2008, we had consolidated six of the acquired sales centers into our existing sales centers. We have included the results of operations for NPT in our Consolidated Financial Statements since the acquisition date. We have completed the purchase price allocations for our acquisition of NPT on a preliminary basis, subject to adjustments in accordance with the purchase agreement and other adjustments should new or additional facts about the business become known. We expect to finalize the allocations by the first quarter of 2009. This acquisition did not have a material impact on our financial position or results of operations.

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

Note 4 – Debt

In March 2007, we renewed our accounts receivable securitization facility (the Receivables Facility), which provides a seasonal borrowing capacity. The maximum capacity was $150.0 million through March 2008. We amended the Receivables Purchase Agreement under the Receivables Facility in March 2008 to extend the termination date to May 21, 2008. In May 2008, we renewed the Receivables Facility for one year through May 2009. The Receivables Facility had a maximum borrowing capacity of up to $135.0 million through August 2008 and now provides a maximum borrowing capacity of up to $95.0 million through May 2009.

Our unsecured syndicated senior credit facility includes a $60.0 million term loan (the Term Loan), which matures on December 20, 2010. In December 2005, we entered into an interest rate swap agreement to reduce our exposure to fluctuations in interest rates on the Term Loan. This swap agreement terminates on December 31, 2008. In March 2008, we entered into a separate interest rate swap agreement to reduce our exposure to fluctuations in interest rates for the remaining outstanding period of the Term Loan. This swap will be in effect as of December 31, 2008 when the original swap agreement terminates and will terminate when the Term Loan matures on December 20, 2010. We have designated both swaps as cash flow hedges.

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POOL CORPORATION
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5 – Comprehensive Income

Comprehensive income includes net income, foreign currency translation adjustments and the unrealized gain or loss on interest rate swaps. Comprehensive income for the three and nine months ended September 30, 2008 and 2007 is presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Comprehensive income	$ 20,441	$ 21,801	$ 70,628	$ 82,425

Note 6 – Fair Value Measurements

Effective January 1, 2008, we prospectively implemented the provisions of SFAS 157, Fair Value Measurements. For the fair value measurements that are required or permitted under other standards, SFAS 157 clarifies the fair value objective and establishes a framework for developing fair value estimates. In February 2008, the FASB issued FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157, which defers the effective date for us to January 1, 2009 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring basis (that is, at least annually).

SFAS 157 provides a framework for measuring fair value and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs), the next priority to observable market based inputs or unobservable inputs that are corroborated by market data (Level 2 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

In measuring the fair value of our assets and liabilities, we use significant other observable market data or assumptions (Level 2 inputs) that we believe market participants would use in pricing an asset or liability, including assumptions about risk when appropriate. Our assets and liabilities that are measured at fair value on a recurring basis include an unrealized gain of $0.7 million related to our second Term Loan interest rate swap and unrealized losses of $3.9 million related to our other two interest rate swaps. These balances are included in Other assets, net and Accrued and other current liabilities, respectively, on the Consolidated Balance Sheets at September 30, 2008.

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

You should read the following discussion in conjunction with Management's Discussion and Analysis included in our 2007 Annual Report on Form 10-K. For a discussion of our base business calculations, see page 10 under the RESULTS OF OPERATIONS section below.

OVERVIEW

Financial Results

Our third quarter results were highlighted by continued improvement in gross margins and increased earnings per share and cash provided by operations compared to the same period in 2007.

Net sales for the quarter ended September 30, 2008 decreased 6% compared to the third quarter of 2007 as our sales remain pressured by the unprecedented market and economic conditions impacting our industry. Base business sales declined 8% as compared to the same period last year due to the continued drop-off in new pool and irrigation construction activity and unfavorable weather. This decrease was partially offset by sales from acquired businesses, primarily our March 2008 acquisition of National Pool Tile Group, Inc. (NPT). We also realized a modest increase in maintenance, repair and replacement (MRR) product sales, although sales of certain MRR products have declined as more consumers choose to defer discretionary replacement and refurbish activity. Complementary product sales, which are heavily weighted towards new pool construction, decreased approximately 12% for the third quarter of 2008 compared to a 5% decrease in the same period in 2007.

Gross profit as a percentage of net sales (gross margin) improved to 28.7% in the third quarter of 2008 from 26.5% for the third quarter of 2007. The increase in gross margin is primarily attributable to improved pricing management, a favorable shift in sales mix to products in the higher margin maintenance market, an increase in sales of higher margin Pool Corporation branded products and favorable comparison to the third quarter of 2007, which was more negatively impacted by competitive pricing trends than the current quarter.

Selling and administrative expenses (operating expenses) increased 3% compared to the third quarter of 2007 due to operating expenses related to acquired businesses. Base business operating expenses decreased 1% quarter over quarter due primarily to the impact of cost control initiatives.

Operating income decreased $0.9 million in the third quarter of 2008 while operating income as a percentage of net sales (operating margin) was up slightly to 7.8% from 7.5% in the third quarter of 2007. Interest expense decreased 28% during the quarter due to a lower weighted average effective interest rate and lower average debt levels compared to the third quarter of 2007. Earnings per share for the third quarter of 2008 increased to $0.45 per diluted share on net income of $22.1 million, compared to $0.43 per diluted share on net income of $21.8 million in the same period in 2007.

Financial Position and Liquidity

Total net receivables decreased 11% to $178.9 million at September 30, 2008 from $200.5 million at September 30, 2007 due to the decrease in net sales, our tighter credit policies and focused collection efforts. Our allowance for doubtful accounts balance was $10.6 million at September 30, 2008, an increase of $1.9 million over September 30, 2007, and includes $0.6 million related to the acquisition of NPT. We increased the allowance for doubtful accounts in the third quarter of 2008 to reflect an increase in our total past due receivable balances year over year. Days sales outstanding (DSO) increased between periods to 36.4 days at September 30, 2008 compared to 36.1 days at September 30, 2007.

Our inventory levels increased 9% to $345.9 million as of September 30, 2008 compared to $317.1 million as of September 30, 2007. This increase reflects $17.9 million of acquired inventory, primarily related to NPT, and higher inventory levels attributable to the slowdown in sales and opportunistic buying in advance of vendor price increases. Our inventory turns, as calculated on a trailing twelve month basis, have decreased to 3.3 times as of September 30, 2008 compared to 3.9 times as of September 30, 2007.

Total debt outstanding decreased to $337.7 million at September 30, 2008 compared to $406.5 million at September 30, 2007. This decrease reflects the deferral of our $28.0 million third quarter 2008 estimated federal tax payment, lower borrowings required to fund working capital and debt repayments funded by our strong seasonal cash collections. Our current ratio increased to 2.1 as of September 30, 2008 compared to 2.0 as of September 30, 2007.

Current Trends

The continuing adverse economic trends that have carried over from 2007 have significantly impacted our industry. These trends include a slowdown in the domestic housing market, with lower housing turnover, a sharp drop in new home construction, home value deflation in many markets and a significant tightening of consumer and commercial credit. Some of the factors that help mitigate the impact of these trends on our business include the following:

- the majority of our business is driven by the ongoing maintenance and repair of existing pools and landscaped areas, with under 20% of our sales and gross profits tied to new pool or irrigation construction in 2008 (as our sales related to new construction activity have declined, the proportion of our net sales represented by MRR products has increased to over 80%);
- we believe our service-oriented model helps us gain market share; and
- we estimate that only a small percentage of pools are constructed along with new homes 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 have significantly impacted a number of our key markets, including Florida, Arizona and parts of California. We believe these trends, along with 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. In 2008, we estimate that new pool construction will drop an additional 50,000 units, or approximately 35%. Since these trends worsened throughout 2007 and 2008, they had a more pronounced impact on our results in the first nine months of 2008 compared to the same period in 2007. A further 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

We remain focused on our 2008 objectives which 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.

Based on our results for the first nine months and the current external environment, we have updated our full year 2008 guidance based on our projection that fourth quarter earnings per diluted share is expected to be similar to the fourth quarter of 2007. We believe that our fourth quarter sales will be pressured by the following:

- continued softness in new pool and irrigation construction;
- some deferral of discretionary replacement and refurbish activity; and
- tighter credit management practices, resulting in fewer sales to lower margin customers than in prior years.

While we expect that gross margins will benefit further from commodity cost driven price increases by vendors that we plan to pass through the supply chain, this impact could be partially offset by an even tougher competitive pricing environment.

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Looking ahead to 2009, we believe that the ongoing housing market and general economic downturns will continue to pressure new pool and irrigation construction activity. However, we expect a relatively stable maintenance market based on the increased installed based of swimming pools. We anticipate higher than normal inflationary product cost increases that we expect to pass through the supply chain. Given the ongoing difficult external environment, we will continue to focus on striking an appropriate balance on the extension of credit and maintaining a prudent cost structure. Excluding any acquisition activity, we do not expect to increase the number of sales centers in 2009.

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.

The forward-looking statements in this outlook section are subject to significant risks and uncertainties, including changes in the economy and the housing market, sensitivity of our business to weather conditions, our ability to maintain favorable relationships with suppliers and manufacturers, competition from other leisure product alternatives and mass merchants, and other risks detailed in Part II - Item 1A “Risk Factors” and our “Cautionary Statement for Purpose of the ‘Safe Harbor’ Provisions of the Private Securities Litigation Reform Act of 1995”.

RESULTS OF OPERATIONS

As of September 30, 2008, we conducted operations through 290 sales centers in North America and Europe.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	71.3	73.5	71.1	72.3
Gross profit	28.7	26.5	28.9	27.7
Selling and administrative expenses	20.9	19.0	20.3	18.7
Operating income	7.8	7.5	8.6	9.0
Interest expense, net	0.9	1.2	1.0	1.0
Income before income taxes and equity earnings	6.9%	6.3%	7.6%	8.0%

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

Three Months Ended September 30, 2008 Compared to Three Months Ended September 30, 2007

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

(Unaudited) (In thousands)	Base Business Three Months Ended September 30,		Excluded Three Months Ended September 30,		Total Three Months Ended September 30,	
	2008	2007	2008	2007	2008	2007
Net sales	$467,878	$509,766	$25,652	$17,668	$493,530	$527,434
Gross profit	133,771	135,580	8,029	4,223	141,800	139,803
Gross margin	28.6%	26.6%	31.3%	23.9%	28.7%	26.5%
Selling and administrative expenses	95,024	96,056	8,159	4,242	103,183	100,298
Expenses as a % of net sales	20.3%	18.8%	31.8%	24.0%	20.9%	19.0%
Operating income (loss)	38,747	39,524	(130)	(19)	38,617	39,505
Operating margin	8.3%	7.8%	(0.5)%	(0.1)%	7.8%	7.5%

We exclude the following sales centers from base business results for a period of 15 months (parenthetical numbers for each category indicate the number of sales centers excluded as of September 30, 2008):

- acquired sales centers (10, net of consolidations – see table below);
- existing sales centers consolidated with acquired sales centers (6);
- closed sales centers (3);
- consolidated sales centers in cases where we do not expect to maintain the majority of the existing business (1); and
- sales centers opened in new markets (0).

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

Since we divested our pool liner manufacturing operation in France in April 2008, we have excluded these operations from base business for the comparative three month period ended September 30, 2007.

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

Acquired	Acquisition Date	Net Sales Centers Acquired	Period Excluded
National Pool Tile (NPT)	March 2008	9	July – September 2008
Canswim Pools		1	July – September 2008

March
2008

The number of sales centers did not change during the quarter ended September 30, 2008.

Net Sales

(in millions)	Three Months Ended September 30, 2008	2007	Change	
Net sales	$ 493.5	$ 527.4	$ (33.9)	(6)%

Consistent with our second quarter results, the decrease in net sales is primarily due to the impacts of the ongoing difficult external environment. Total base business sales decreased 8% compared to the third quarter of 2007, including a 7% decline on the swimming pool side of the business and 16% on the irrigation side of the business. This impact remains more concentrated in our larger markets with total base business sales down 13% in California, 8% in Florida and 17% in Arizona. Complementary product sales continue to be negatively impacted by the reduced new pool construction activity and decreased approximately 12% compared to the third quarter of 2007.

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

- approximately $13.3 million in sales related to our March 2008 acquisitions, including approximately $12.2 million related to NPT;
- moderate sales growth for MRR products, including a 7% increase in chemical sales;
- estimated average price increases of 1% to 3% that we passed through the supply chain; and
- higher freight out income of $1.1 million due primarily to the implementation of fuel surcharges.

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

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

Gross Profit

(in millions)	Three Months Ended September 30, 2008	2007	Change	
Gross profit	$ 141.8	$ 139.8	$ 2.0	1%
Gross margin	28.7 %	26.5%		

The increase in gross margin is primarily attributable to our focus on pricing discipline at the sales center level. Other favorable impacts compared to the third quarter of 2007 included the following (listed in order of estimated magnitude):

- a shift in sales mix to products in the higher margin maintenance market;
- higher estimated vendor incentives earned as a percentage of sales due primarily to a shift in purchasing mix;
- greater margin contribution from our acquisition of NPT;
- a favorable comparison to the third quarter of 2007, which was more negatively impacted by competitive pricing due to other distributors selling off excess inventories; and
- increased sales of Pool Corporation branded products.

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Operating Expenses

	Three Months Ended September 30,			
(in millions)	2008	2007	Change	
Operating expenses	$ 103.2	$ 100.3	$ 2.9	3%
Operating expenses as a percentage of net sales	20.9%	19.0%		

The increase in operating expenses is due to the impact of our acquired sales centers, which had approximately $4.3 million in operating expenses during the third quarter. This increase was partially offset by a 1% decrease in base business operating expenses due to reduced headcount and targeted variable expense reductions. As of September 30, 2008, total headcount (excluding acquisitions) decreased 7% year over year while overtime and temporary labor costs declined $1.2 million compared to the third quarter of 2007. Total operating expenses as a percentage of net sales increased between periods due to the decrease in net sales.

Interest Expense

Interest expense decreased 28% between periods as a result of our lower weighted average effective interest rate for the period and lower debt levels. The weighted average effective interest rate decreased to 4.7% in the third quarter of 2008 from 6.1% in the same period in 2007. Average debt outstanding was 6% lower in the third quarter of 2008.

Income Taxes

The decrease in income taxes is due to the decrease in income before income taxes and equity earnings. Our effective income tax rate was 40.19% for the three months ended September 30, 2008 and 38.61% for the three months ended September 30, 2007. The increase in the effective income tax rate reflects a change in estimated annual losses from certain foreign operations.

Net Income and Earnings Per Share

Net income increased 1% to $22.1 million in the third quarter of 2008, while earnings per share increased to $0.45 per diluted share compared to $0.43 for the third quarter of 2007. Our first quarter acquisitions had a dilutive impact of approximately $0.01 per diluted share in the third quarter of 2008. In both periods, earnings per share benefited from the reduction of our weighted average shares outstanding due to the impact of our 2007 share repurchase activities. This included an accretive impact of approximately $0.02 for the third quarter of 2008 and $0.01 for the third quarter of 2007.

Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007

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

(Unaudited) (In thousands)	Base Business Nine Months Ended September 30,		Excluded Nine Months Ended September 30,		Total Nine Months Ended September 30,	
	2008	2007	2008	2007	2008	2007
Net sales	$1,456,763	$1,584,377	$67,954	$43,235	$1,524,717	$1,627,612
Gross profit	418,414	440,338	21,492	10,872	439,906	451,210
Gross margin	28.7%	27.8%	31.6%	25.1%	28.9%	27.7%
Selling and administrative expenses	289,165	294,146	19,937	10,494	309,102	304,640
Expenses as a % of net sales	19.8%	18.6%	29.3%	24.3%	20.3%	18.7%
Operating income	129,249	146,192	1,555	378	130,804	146,570
Operating margin	8.9%	9.2%	2.3%	0.9%	8.6%	9.0%

For an explanation of how we calculate base business, please refer to the discussion of base business on page 10 under the heading “Three Months Ended September 30, 2008 Compared to Three Months Ended September 30, 2007”.

In addition to the 20 sales centers excluded from base business as of September 30, 2008, there were 2 new market sales centers excluded from January to May 2008 before they became base business sales centers in June 2008. Since we divested our pool liner manufacturing operation in France in April 2008, we have also excluded these operations from base business for the comparative six month period ended September 30, 2007.

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

Acquired	Acquisition Date	Net Sales Centers Acquired	Period Excluded
National Pool Tile (NPT) (1)	March 2008	9	March – September 2008
Canswim Pools	March 2008	1	March – September 2008
Tor-Lyn, Limited	February 2007	1	February – April 2007 and January – April 2008

The table below summarizes the changes in our sales centers during the first nine months of 2008:

December 31, 2007	281
Acquired, net of consolidations (1)	10
New locations	1

Consolidated	(1)
Closed	(1)
September 30, 2008	290

(1) We acquired 15 NPT sales centers and have consolidated 6 of these with existing sales centers as of September 30, 2008, including 4 in March 2008 and 2 in the second quarter of 2008.

Net Sales

(in millions)	Nine Months Ended September 30, 2008	2007	Change	
Net sales	$ 1,524.7	$ 1,627.6	$(102.9)	(6)%

The new pool and irrigation construction markets are facing unprecedented conditions created by the combination of significant declines in the real estate and mortgage-backed financing markets. As a result, our 2008 sales have been negatively impacted with a more pronounced effect on our irrigation business and complementary product sales.

Base business sales decreased 8% due primarily to soft demand for new pool and irrigation construction products. This impact remains more concentrated in markets that had the greatest run-up in real estate values between 2000 and 2006, which includes a number of our larger markets in Florida, Arizona and parts of California. Complementary product sales were negatively impacted by the decline in new pool construction and decreased 13% compared to the first nine months of 2007. Overall, weather conditions have been unfavorable compared to the same period in 2007.

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

- approximately $38.8 million in sales related to our first quarter 2008 acquisitions;
- moderate sales growth for MRR products (see discussion at page 11 under the subheading “Net Sales”), including a 5% increase in chemical sales;
- estimated average price increases of 1% to 3% that we passed through the supply chain;
- 4% sales growth for our European operations; and
- higher freight out income of $2.0 million due to the implementation of fuel surcharges, which offset the increase in outbound freight costs.

Gross Profit

(in millions)	Nine Months Ended September 30, 2008	2007	Change	
Gross profit	$ 439.9	$ 451.2	$(11.3)	(3)%
Gross margin	28.9 %	27.7%		

Despite the tough competitive pricing environment, gross margin increased 120 basis points compared to the first nine months of 2007. The factors contributing to this improvement are consistent with those attributable to the comparative gross margin improvement for the third quarter as discussed on page 11 under the subheading “Gross Profit”.

Operating Expenses

(in millions)	Nine Months Ended September 30, 2008	2007	Change	
Operating expenses	$ 309.1	$ 304.6	$ 4.5	1%
Operating expenses as a percentage of net sales	20.3 %	18.7%		

The increase in operating expenses is due to approximately $9.9 million of operating expenses related to our first quarter 2008 acquisitions. Base business operating expenses decreased 2% compared to the first nine months of 2007, as the impact of cost control initiatives offset increased building rental expenses of $2.3 million (primarily for sales centers opened or expanded during 2007), higher product delivery costs and inflationary increases in wages and other costs. Total operating expenses as a percentage of net sales increased between periods due to the decrease in net sales.

Our cost control initiatives include tighter management of discretionary costs, the consolidation or closing of seven sales centers since November 2007 and selective personnel reductions over the past year. Despite the 7% reduction in headcount year over year (excluding acquisitions), we still reduced overtime and temporary labor costs by $3.4 million. Compared to the first nine months of 2007, employee insurance costs also decreased $2.8 million due primarily to lower claims expense and incentive expenses declined $1.8 million.

Interest Expense

Interest expense decreased 12% between periods as the impact of a decrease in our weighted average effective interest rate for the period more than offset our higher average debt outstanding balance. Average debt outstanding was 7% higher in the first nine months of 2008, reflecting our increased borrowings during the first half of 2008 that funded our March 2008 acquisitions. The weighted average effective interest rate decreased to 4.7% in the first nine months of 2008 from 6.0% in the same period in 2007.

Income Taxes

The decrease in income taxes is due to the decrease in income before income taxes and equity earnings. Our effective income tax rate was 39.10% at September 30, 2008 and 38.61% at September 30, 2007.

Net Income and Earnings Per Share

Net income decreased 11% to $71.8 million in the first nine months of 2008 compared to the first nine months of 2007. Earnings per share for the first nine months of 2008 decreased to $1.47 per diluted share compared to $1.58 in the first nine months of 2007. The accretive impact of our first quarter acquisitions was approximately $0.01 per diluted share for the first nine months of 2008. In both periods, earnings per share benefited from the reduction of our weighted average shares outstanding due to the impact of our 2007 share repurchase activities. This included an accretive impact of approximately $0.06 for the nine months ended September 30, 2008 and $0.02 for the same period in 2007.

Seasonality and Quarterly Fluctuations

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

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 the first, second and third quarters of 2008, the four quarters of 2007 and the fourth quarter of 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 our industry, the results of any one or more quarters are not necessarily an accurate indication of results for an entire fiscal year or of continuing trends.

(Unaudited) (in thousands)	QUARTERS							
	2008			2007				2006
	Third	Second	First	Fourth	Third	Second	First	Fourth
Statement of Income Data								
Net sales	$493,530	$692,972	$338,215	$300,755	$527,434	$726,472	$373,706	$318,486
Gross profit	141,800	202,752	95,354	79,436	139,803	207,922	103,485	82,905
Operating income (loss)	38,617	89,990	2,197	(12,796)	39,505	98,433	8,632	(4,070)
Net income (loss)	22,060	52,875	(3,184)	(11,589)	21,835	57,794	1,354	(5,001)
Balance Sheet Data								
Total receivables, net	$178,927	$278,654	$206,187	$141,117	$200,534	$301,265	$231,034	$154,937
Product inventories, net	345,944	385,258	476,758	379,663	317,110	388,364	413,161	332,069
Accounts payable	128,329	193,663	333,104	194,178	127,889	229,691	325,448	177,544
Total debt	337,742	441,992	396,110	350,852	406,465	425,599	358,522	265,443

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

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

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

Weather	Possible Effects
Hot and dry	• Increased purchases of chemicals and supplies for existing swimming pools • Increased purchases of above-ground pools and irrigation products
Unseasonably cool weather or extraordinary amounts of rain	• Fewer pool and landscape installations • Decreased purchases of chemicals and supplies • Decreased purchases of impulse items such as above-ground pools and accessories
Unseasonably early warming trends in spring/late cooling trends in fall (primarily in the northern half of the US)	• A longer pool and landscape season, thus increasing our sales
Unseasonably late warming trends in spring/early cooling trends in fall (primarily in the northern half of the US)	• A shorter pool and landscape season, thus decreasing our sales

In the third quarter of 2008, weather conditions were generally unfavorable compared to the same period last year. While temperatures were warmer than normal on the west coast, temperatures were cooler than normal across much of the rest of the country in August and September and a number of severe tropical systems negatively impacted our sales in Texas, Florida and Louisiana.

LIQUIDITY AND CAPITAL RESOURCES

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

- cash flows generated from operating activities;
- the adequacy of available bank lines of credit;
- acquisitions;
- 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 our acquisitions. 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 of Directors;
- repurchase of common stock at Board-defined parameters; and
- repayment of debt.

Sources and Uses of Cash

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

	Nine Months Ended September 30,	
	2008	2007
Operating activities	$ 76,535	$ 33,515
Investing activities	(36,725)	(11,419)
Financing activities	(28,761)	8,987

Cash flow provided by operations increased $43.0 million in the first nine months of 2008 compared to the same period in 2007. This increase is due to the deferral of a $28.0 million third quarter 2008 estimated federal tax payment as allowed by the Internal Revenue Service for taxpayers affected by Hurricane Gustav and favorable impacts from changes in working capital balances that more than offset the reduction in net income. During the first nine months of 2008, the increase in cash used in investing activities reflects cash paid for our March 2008 acquisitions partially offset by a decrease in capital expenditures. Cash used in financing activities in the first nine months of 2008 includes $10.9 million of net payments on debt. In the first nine months of 2007, we used the majority of our net borrowings to fund share repurchase activities.

Future Sources and Uses of Cash

As amended on December 20, 2007, our unsecured syndicated senior credit facility (the Credit Facility) provides for $300.0 million in borrowing capacity including a $240.0 million five-year revolving credit facility (the Revolver) and a $60.0 million term loan (the Term Loan). The Term Loan matures on December 20, 2010 and the Revolver matures on December 20, 2012. The Credit Facility includes sublimits for the issuance of swingline loans and standby letters of credit. Pursuant to an accordion feature, the aggregate maximum principal amount of the commitments under the Revolver may be increased from time to time, by up to $75.0 million, to a total of $315.0 million.

At September 30, 2008, there was $124.6 million outstanding and $113.9 million available for borrowing under the Revolver. The weighted average effective interest rate on the Revolver was approximately 4.3% for the nine months ended September 30, 2008.

At September 30, 2008, there was $54.8 million outstanding under the Term Loan of which $5.3 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 the swap's termination on December 31, 2008. The weighted average effective interest rate of the Term Loan was approximately 5.7% for the nine months ended September 30, 2008. In March 2008, we entered into a separate interest rate swap agreement to reduce our exposure to fluctuations in interest rates for the remaining outstanding period of the Term Loan. This swap will be in effect as of December 31, 2008 when the original swap agreement terminates and will terminate when the Term Loan matures on December 20, 2010.

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In May 2008, we renewed our accounts receivable securitization facility (the Receivables Facility) for one year through May 2009. As of September 2008, the Receivables Facility provides a borrowing capacity of up to $95.0 million.

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 September 30, 2008, there was $58.4 million outstanding under the Receivables Facility at a weighted average effective interest rate of 3.7%.

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 September 30, 2008, we were in compliance with all covenants and financial ratio requirements related to our Credit Facility, our Notes and our Receivables Facility. For additional information regarding our debt arrangements, see Note 5 of "Notes to Consolidated Financial Statements," included in Item 8 of our 2007 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 October 24, 2008, $53.0 million of the authorized amount remained available. We may continue to repurchase shares on the open market from time to time, depending on market conditions. We may use cash flows from operations to fund these purchases, or we may incur additional debt.

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

CRITICAL ACCOUNTING ESTIMATES

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

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

Management has discussed the development, selection and disclosure of our critical accounting estimates with the Audit Committee of our Board of Directors. For a description of our critical accounting estimates that require us to make the most difficult, subjective or complex judgments, please see our Annual Report on Form 10-K for the year ended December 31, 2007. We have not changed these policies from those previously disclosed.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

There have been no material changes from what we reported in our Form 10-K for the year ended December 31, 2007.

Foreign Exchange Risk

There have been no material changes from what we reported in our Form 10-K for the year ended December 31, 2007.

Item 4. Controls and Procedures

The term “disclosure controls and procedures” is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Act). The rules refer to the controls and other procedures designed to ensure that information required to be disclosed in reports that we file or submit under the Act is (1) recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms and (2) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. As of September 30, 2008, management, including the CEO and CFO, performed an evaluation of the effectiveness of our disclosure controls and procedures. Based on that evaluation, management, including the CEO and CFO, concluded that as of September 30, 2008, our disclosure controls and procedures were effective.

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

PART II. OTHER INFORMATION

Item 1A. Risk Factors

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

Our disclosure and analysis in this report contains forward-looking information that involves risks and uncertainties. Our forward-looking statements express our current expectations or forecasts of possible future results or events, including projections of future results, statements of management's plans and objectives, future contracts, and forecasts of trends and other matters. This includes statements under the heading "Overview – Outlook" in Part 1, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-Q. 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 and expressions of meaning. No assurance can be given that the results in any forward-looking statements will be achieved and actual results could be affected by one or more factors, which could cause them to differ materially. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act.

Risk Factors

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

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

In economic downturns, the demand for swimming pool or leisure related products may decline as discretionary consumer spending, the growth rate of pool eligible households and swimming pool construction decline. Although maintenance products and repair and replacement equipment that must be purchased by pool owners to maintain existing swimming pools currently account for more than 80% of our net sales and gross profits, the growth of this portion of our business depends on the expansion of the installed pool base and could also be adversely affected by decreases in construction activities similar to the trends in 2007 and 2008. A weakening economy may also cause deferrals of discretionary replacement and refurbish activity. In addition, even in generally favorable economic conditions, severe and/or prolonged downturns in the housing market could have a material adverse impact on our financial performance. Such downturns expose us to certain additional risks, including but not limited to the risk of customer closures or bankruptcies, which could shrink our potential customer base and inhibit our ability to collect on those customers' receivables.

We 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 Part 1, Item 2, "Management's Discussion and

Analysis of Financial Condition and Results of Operations - Seasonality and Quarterly Fluctuations," of this Form 10-Q.

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

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

Our largest suppliers are Pentair Corporation, Hayward Pool Products, Inc. and Zodiac Pool 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. Since the beginning of fiscal 2003, we have opened 40 new sales centers and have completed 13 acquisitions. These acquisitions have added 74 sales centers, net of sales center closings and consolidations, and 3 centralized shipping locations 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.com™ and public relations campaigns. We believe these programs benefit the entire supply chain from our suppliers to our customers.

We also promote the growth of our customers' businesses through comprehensive support programs that offer promotional tools and marketing support to help generate increased sales for our customers. Our programs include such 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 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below summarizes the repurchases of our common stock in the third quarter of 2008:

Period	Total number of shares purchased(1)	Average price paid per share	Total number of shares purchased as part of publicly announced plan(2)	Maximum approximate dollar value of shares that may yet be purchased under the plan(3)
July 1-31, 2008	—	$ —	—	$ 54,968,410
August 1-31, 2008	—	$ —	—	$ 54,968,410
September 1-30, 2008	88,260	$ 22.45	88,260	$ 52,987,067
Total	88,260	$ 22.45	88,260	

(1) These shares may include shares of our common stock surrendered to us by employees in order to satisfy tax withholding obligations in connection with certain exercises of employee stock options and/or the exercise price of such options granted under our share-based compensation plans. There were no shares surrendered for this purpose in the third quarter of 2008.

(2) In July 2002, our Board authorized $50.0 million for the repurchase of shares of our common stock in the open market. In August 2004, November 2005 and August 2006, our Board increased the authorization for the repurchase of shares of our common stock in the open market to a total of $50.0 million from the amounts remaining at each of those dates. In November 2006 and August 2007, our Board increased the authorization for the repurchase of shares of our common stock in the open market to $100.0 million from the amounts remaining at each of those dates.

(3) As of October 24, 2008, $53.0 million of the authorized amount remained available under our share repurchase program.

Item 6. Exhibits

Exhibits filed as part of this report are listed in the Index to Exhibits appearing on page 27.

Signature Page

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on October 31, 2008.

POOL CORPORATION

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

Index to Exhibits

No.	Description	Filed with this Form 10-Q	Incorporated by Reference		
			Form	File No.	Date Filed
3.1	Restated Certificate of Incorporation of the Company.		10-Q	000-26640	08/09/2006
3.2	Restated Composite Bylaws of the Company.		10-Q	000-26640	08/09/2006
4.1	Form of certificate representing shares of common stock of the Company.		8-K	000-26640	05/19/2006
31.1	Certification by Mark W. Joslin pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X			
31.2	Certification by Manuel J. Perez de la Mesa pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X			
32.1	Certification by Manuel J. Perez de la Mesa and Mark W. Joslin pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X			