POOL CORP
Form 10-K
March 01, 2011

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, 2010

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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. o

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

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant based on the closing sales price of the Registrant's common stock as of June 30, 2010 was $1,042,907,678.

As of February 22, 2011, the Registrant had 48,847,864 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, 2011 for the Annual Meeting to be held on May 4, 2011, 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 we, us or our) is the world's largest wholesale distributor of swimming pool supplies, equipment and related leisure products and is one of the top three distributors of irrigation and landscape products in the United States. The Company was incorporated in the State of Delaware in 1993 and has grown from a regional distributor to a multi-national, multi-network distribution company.

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

As of December 31, 2010, we operated 291 sales centers in North America and Europe through our three distribution networks:

- SCP Distributors LLC (SCP);
- Superior Pool Products LLC (Superior); and
- Horizon Distributors, Inc. (Horizon).

Superior and Horizon are both wholly owned subsidiaries of SCP, which is wholly owned by Pool Corporation.

Our Industry

We believe that the swimming pool industry is relatively young, with room for continued growth from increased penetration of new pools. Of the approximately 80 million homes in the United States that have the economic capacity and the yard space to have a swimming pool, approximately 12% currently have a pool. We believe favorable demographic and socioeconomic trends have and will continue to positively impact the long-term prospects of our industry. These favorable trends include the following:

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

The irrigation and landscape industry shares many characteristics with the pool industry, and we believe that it benefits from the same favorable demographic and socioeconomic trends and will realize long-term growth rates similar to the pool industry.

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

We believe that the recurring nature of the maintenance and repair market has historically helped maintain a relatively consistent rate of industry growth. This has also helped cushion the negative impact on revenues in periods when unfavorable economic conditions and softness in the housing market have adversely impacted pool construction and major repair and refurbishment activities.

The table below reflects growth in the domestic installed base of in-ground and above-ground swimming pools over the past 11 years (based on Company estimates and information from 2010 P.K. Data, Inc. reports):

The replacement and refurbishment market includes major swimming pool repairs and currently accounts for approximately 20% of consumer spending in the pool industry. This activity is more sensitive to economic factors that impact consumer spending compared to the maintenance and minor repair market.

New swimming pool construction comprises the bulk of the remaining 10% of consumer spending in the pool industry. The demand for new pools is driven by the perceived benefits of pool ownership including relaxation, entertainment, family activity, exercise and convenience. The industry competes for new pool sales against other discretionary consumer purchases such as kitchen and bathroom remodeling, boats, motorcycles, recreational vehicles and vacations.

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

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

The adverse housing and economic trends over the past several years had a significant impact on our industry and our performance. These trends drove an approximate 80% reduction in new pool construction in the United States compared to peak levels in 2005 and also contributed to more than a 30% decline in replacement and refurbishment activities. The impact of these trends was more severe in some of the largest pool markets including California, Florida and Arizona. Since irrigation is more heavily weighted towards new construction activities, the impact was greater on our Horizon business due to the significant declines in new home and commercial construction activities. In order to mitigate the greater rate of earnings decline for our irrigation business, we have consolidated several facilities and have significantly reduced operating costs related to our Horizon network over the past two years.

While general external market factors including consumer confidence, employment, consumer financing and economic growth remain at depressed levels, these factors have shown recent signs of improvement and we believe our 2% base business sales growth in 2010 indicates that the declines in pool construction and pool refurbishment activities have subsided in most markets. Trends that impact our landscape and irrigation markets tend to lag the trends in the corresponding pool markets by up to a year. Consistent with this expectation, trends on the irrigation side of our business began to improve during 2010 with slowly moderating sales declines highlighted by a number of markets realizing sales growth in the second half of the year and higher sales overall in December 2010 compared to December 2009.

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We still believe there is potential for a significant sales recovery due to the build-up of deferred replacement and retrofit activity and our expectation for gradually normalized new pool and irrigation construction levels. While current economic trends indicate that consumer spending may rebound slowly and that construction activities in many markets will likely remain near current depressed levels through 2011, we believe that new pool and irrigation construction activities will gradually return to more normalized levels. We expect that sales levels should once again benefit from long-term industry growth dynamics and that over the long-term the industry will return to an annual growth rate of approximately 2% to 6% when the overall economy rebounds and the real estate and credit markets recover.

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

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

Business Strategy and Growth

Our mission is to provide exceptional value to our customers and suppliers, in order to provide exceptional return to our shareholders while providing exceptional opportunities to our employees. Our three core strategies are as follows:

- to promote the growth of our industry;
- to promote the growth of our customers’ businesses; and
- to continuously strive to operate more effectively.

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

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

Growth initiatives related to our customer programs include our retail brand licensing program called The Backyard Place® and our Pool Pro 1 rewards program designed for pool service professionals. We launched The Backyard Place® program in 2006 and currently have over 100 agreements with retail store customers. Under this program, customers make commitments to meet minimum purchase levels, stock a minimum of nine specific product categories and operate within The Backyard Place® guidelines (including weekend hour requirements). Our Pool Pro 1 program aligns with our replacement parts growth initiative and provides customers with monthly coupons and other special discounts on parts product purchases. Over 2,400 pool service professionals are members of this program.

In addition to our efforts aimed at industry and customer growth, we strive to operate more effectively by continuously focusing on improvements in our operations such as product sourcing, procurement and logistics initiatives, adoption of enhanced business practices and improved working capital management. Other key internal growth initiatives include the continued expansion of both our product offerings (as described in the "Customers and Products" section below) and our distribution networks.

We have grown our distribution networks through acquisitions, new sales center openings and expansions of existing sales centers. Since the beginning of 2006, we completed 9 acquisitions consisting of 37 sales centers (net of sales center closings and consolidations within one year of acquisition) and opened 11 new sales centers (net of all other sales center closings and consolidations). These acquired locations included nine net sales centers added ahead of the 2010 season through our General Pool & Spa Supply and Metrinox acquisitions. Given the challenging external environment, we opened only three new sales centers in 2010 and expect to open only three new sales centers in 2011.

We plan to continue to selectively expand our domestic swimming pool distribution networks and to take advantage of opportunities to further expand our domestic irrigation and international swimming pool distribution networks via both acquisitions and new sales center openings. We plan to make strategic acquisitions to further penetrate existing markets and expand into both new geographic markets and new product categories. For additional discussion of our recent acquisitions, see Note 2 of "Notes to Consolidated Financial Statements," included in Item 8 of this Form 10-K.

Based on industry data, we believe our industry grew at a 2% to 6% annual rate for the period between 2000 and 2005, contracted each year between 2006 and 2009 and was flat to slightly up in 2010, including the impact of moderating contraction within the irrigation industry. Historically, our sales growth rates have exceeded the industry's growth rates as we have increased our market share. We believe that our high service levels and expanded product offerings have also enabled us to gain market share during the past five years even as our industry contracted. Going forward, we expect to realize sales growth higher than the industry average due to further increases in market share and continued expansion of our product offerings.

We estimate that price inflation has averaged 1% to 3% annually in our industry over the past 10 years. We generally pass industry price increases through the supply chain and make strategic volume inventory purchases ahead of vendor price increases. In 2010, our industry experienced some price deflation after experiencing above average inflationary increases in product costs in 2008 and 2009. In 2011, we anticipate more normalized price inflation of 1% to 2% overall, although we expect price deflation for certain chemical products.

Customers and Products

We serve roughly 80,000 customers, none of which account for more than 1% of our sales. We primarily serve five types of customers:

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

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

We conduct our operations through 291 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 50% of our net sales in 2010. 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 our sales centers and are charged with understanding and meeting our customers' specific needs.

We offer our customers more than 160,000 national brand and Pool Corporation branded products. We believe that our selection of pool equipment, supplies, chemicals, replacement parts, irrigation and landscape products and other pool construction and recreational 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
- other pool construction and recreational products, which consist of a number of product categories and includes:
  — building materials used for pool installations and remodeling, such as concrete, plumbing and electrical components and pool surface and decking materials; and
  — discretionary recreational and related outdoor lifestyle products that enhance consumers' use and enjoyment of outdoor living spaces, such as pool toys and games, spas and grills.

We track and monitor the majority of our sales by various product lines and product categories, primarily for consideration in incentive plan programs and to provide support for sales and marketing efforts. We currently have over 300 product lines and over 40 product categories. Based on our 2010 product classifications, sales for our pool and spa chemicals product category as a percentage of total net sales was 14% in 2008 and 17% in both 2009 and 2010. We attribute the growth between 2008 and 2009 to increases in our market share, a shift in product mix resulting from the decline in construction related products and chemical price increases. Chemical sales growth in 2010 was consistent with our overall base business sales growth rate despite price deflation for certain chemical products. No other product category accounted for 10% or more of total net sales in any of the last three fiscal years.

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

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

Maintenance and minor repair products are primarily non-discretionary in nature, meaning that these items must be purchased by end users to maintain existing swimming pools and landscaped areas. In 2009 and 2010, the sale of maintenance and minor repair products accounted for approximately 70% of our sales and gross profits while approximately 30% of sales and gross profits were derived from the replacement, construction and installation (equipment, materials, plumbing, electrical, etc.) of pools and landscaping. This reflects a shift toward more sales of maintenance and minor repair products due to the significant declines in new pool construction since 2005. Prior to this industry downturn, just over 50% of our total sales and gross profits were related to maintenance and minor repair products.

Since our acquisition of National Pool Tile (NPT) in 2008, we have expanded the number of sales center locations that offer NPT's tile and composite pool finish products from the original 14 locations to over 50 locations. Another key product initiative has been the expansion of our replacement parts offerings. These product initiatives, along with the continued expansion of our Pool Corporation branded products, have contributed to improved gross margins.

Other pool construction and recreational product sales have been an important factor in our historical base business sales growth. While sales of these products declined between 2007 and 2009 since the majority of these products are related to new construction activities or are discretionary by nature, sales increased in 2010 due to our ongoing expansion of these product offerings and the gradual improvement in construction and economic trends. We continue to identify new related product categories and we typically introduce two to three of these new categories each year in certain markets. We then evaluate the performance of these test categories and focus on those that we believe exhibit long-term growth potential. We expect to realize continued sales growth for these types of product offerings by expanding the number of locations that offer these products, increasing the number of products offered at certain locations and continuing a modest broadening of these product offerings on a company-wide basis.

Operating Strategy

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:

- to offer our customers a choice of different distributors, featuring distinctive product selections and service personnel; and
- 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, such as developing and coordinating customer and vendor related programs, information systems support and expert resources to help them achieve their goals. We believe our incentive programs and feedback tools, along with the competitive nature of our internal networks, stimulate and enhance employee performance.

Distribution

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

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

We also operate seven centralized shipping locations (CSLs) that redistribute products we purchase in bulk quantities to our sales centers or directly to customers. Our CSLs include regional locations that carry a wide range of traditional swimming pool, irrigation and related construction products. Our regional CSL in Florida and another CSL in California redistribute our NPT tile and composite pool finish products to sales centers that stock these products.

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.

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

We regularly evaluate supplier relationships and consider alternate sourcing to assure competitive cost, service and quality standards. Our largest suppliers include Pentair Water Pool and Spa, Inc., Hayward Pool Products, Inc. and Zodiac Pool Systems, Inc., which accounted for approximately 17%, 12% and 9%, respectively, of the cost of products we sold in 2010.

Competition

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

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

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

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

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

Seasonality and Weather

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

Environmental, Health and Safety Regulations

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

Employees

We employed approximately 3,200 people at December 31, 2010. Given the seasonal nature of our business, our peak employment period is the summer and depending on expected sales levels, we add 200 to 500 employees to our work force to meet seasonal demand.

Intellectual Property

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

Geographic Areas

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

	Year Ended December 31,		
	2010	2009	2008
United States	$1,450,959	$1,393,513	$1,626,869
International	162,787	146,281	156,814
	$1,613,746	$1,539,794	$1,783,683

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

	December 31,		
	2010	2009	2008
United States	$27,337	$27,840	$28,931
International	3,348	3,592	4,117
	$30,685	$31,432	$33,048

Available Information

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

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

Item 1A. Risk Factors

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

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

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Risk Factors

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

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

In economic downturns, the demand for swimming pool or leisure related products may decline as discretionary consumer spending, the growth rate of pool eligible households and swimming pool construction decline. Although maintenance products and repair and replacement equipment that must be purchased by pool owners to maintain existing swimming pools currently account for approximately 90% of our net sales and gross profits, the growth of this portion of our business depends on the expansion of the installed pool base and could also be adversely affected by decreases in construction activities similar to the trends between late 2006 and early 2010. A weak economy may also cause deferrals of discretionary replacement and refurbish activity. In addition, even in generally favorable economic conditions, severe and/or prolonged downturns in the housing market could have a material adverse impact on our financial performance. Such downturns expose us to certain additional risks, including but not limited to the risk of customer closures or bankruptcies, which could shrink our potential customer base and inhibit our ability to collect on those customers' receivables.

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

We are susceptible to adverse weather conditions.

Weather is one of the principal external factors affecting our business. For example, unseasonably late warming trends in the spring or early cooling trends in the fall can shorten the length of the pool season. Also, unseasonably cool weather or extraordinary rainfall during the peak season can decrease swimming pool use, installation and maintenance, as well as landscape installations and maintenance. These weather conditions adversely affect sales of our products. Drought conditions or water management initiatives may lead to municipal ordinances related to water use restrictions, which could result in decreased pool and irrigation system installations and negatively impact our sales. While warmer weather conditions favorably impact our sales, global warming trends and other significant climate changes can create more variability in the short-term or lead to other unfavorable weather conditions that could adversely impact our sales or operations. For a discussion regarding seasonality and weather, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Seasonality and Quarterly Fluctuations," of this Form 10-K.

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

As a distribution company, maintaining favorable relationships with our suppliers is critical to our success. We believe that we add considerable value to the swimming pool and irrigation and landscape supply chains 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 Water Pool and Spa, Inc., Hayward Pool Products, Inc. and Zodiac Pool Systems, Inc., which accounted for approximately 17%, 12% and 9%, respectively, of the costs of products we sold in 2010. A decision by several suppliers, acting in concert, to sell their products directly to retailers or other end users of their products, bypassing distribution companies like ours, would have an adverse effect on our business. Additionally, the loss of a single significant supplier due to financial failure or a decision to sell exclusively to other distributors, retailers or end-use consumers could also adversely affect our business. We dedicate considerable resources to promote the benefits and affordability of pool ownership, which we believe significantly benefits our swimming pool customers and suppliers.

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

We face competition from both inside and outside of our industry. Within our industry, we compete against various regional and local distributors and, to a lesser extent, mass market retailers and large pool or landscape supply retailers. Outside of our industry, we compete with sellers of other leisure product alternatives, such as boats and motor homes, and with other companies who rely on discretionary homeowner expenditures, such as home remodelers. New competitors may emerge as there are low barriers to entry in our industry. Some geographic markets that we serve, particularly our four largest, higher density markets in California, Florida, Texas and Arizona, representing approximately 50% of our net sales in 2010, 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 our direct customers and end-use consumers which could have an adverse impact on our business. We may face additional competitive pressures if large pool or landscape supply retailers look to expand their customer base to compete more directly within the distribution channel.

We depend on key personnel.

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

Past growth may not be indicative of future growth.

Historically, we have experienced substantial sales growth through acquisitions, market share gains and new sales center openings that have increased our size, scope and geographic distribution. Since the beginning of 2006, we completed 9 acquisitions consisting of 37 sales centers (net of sales center closings and consolidations within one year of acquisition) and opened 11 new sales centers (net of all other sales center closings and consolidations). While we contemplate continued growth through acquisitions and internal expansion, no assurance can be made as to our ability to:

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

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

Our business is highly seasonal.

In 2010, approximately 68% of our net sales and over 100% of our operating income were generated in the second and third quarters of the year. These quarters represent the peak months of both swimming pool use, installation, remodeling and repair, and landscape installations and maintenance. 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 25 years and we anticipate that there will be continuing changes. The clear trend in environmental, health, transportation and safety regulation is to place more restrictions and limitations on activities that impact the environment, such as the use and handling of chemical substances. Increasingly, strict restrictions and limitations have resulted in higher operating costs for us and it is possible that the costs of compliance with such laws and regulations will continue to increase. We will attempt to anticipate future regulatory requirements that might be imposed and we will plan accordingly to remain in compliance with changing regulations and to minimize the costs of such compliance.

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

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

We lease the POOL corporate offices, which consist of approximately 50,000 square feet of office space in Covington, Louisiana, from an entity in which we have a 50% ownership interest. We own three sales center facilities in Florida and one in Texas. We lease all of our other properties and the majority of our leases have three to seven year terms. As of December 31, 2010, we had 11 leases with remaining terms longer than seven years 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 60,000 square feet and generally consist of warehouse, counter, display and office space. Our centralized shipping locations (CSLs) range in size from approximately 26,000 square feet to 78,000 square feet.

We believe that our facilities are well maintained, suitable for our business and occupy sufficient space to meet our operating needs. As part of our normal business, we regularly evaluate sales center performance and site suitability and may relocate a sales center or consolidate two locations if a sales center is redundant in a market, underperforming 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, 2010:

Network	12/31/09	New Locations	Consolidated and Closed Locations (1)	Acquired Locations (2)	Converted Locations (3)	12/31/10
SCP	147	1	(1)	-	1	148
Superior	62	-	-	-	-	62
Horizon	57	-	(4)	3	-	56
Total Domestic	266	1	(5)	3	1	266
SCP International	21	1	-	3	-	25
Total	287	2	(5)	6	1	291

(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 2010, we consolidated five sales centers.

(2) We completed three acquisitions in 2010, including one in Quebec, Canada and one in Belgium. We do not plan to close or consolidate any of these acquired sales centers.

(3) In 2010, we converted one existing CSL into a sales center location.

The table below identifies the number of sales centers in each state or country by distribution network as of December 31, 2010:

Location	SCP	Superior	Horizon	Total
United States				
California	24	21	17	62
Florida	31	6	-	37
Texas	16	4	10	30
Arizona	7	4	10	21
Georgia	7	2	-	9
Nevada	2	2	5	9
Tennessee	4	3	-	7
Washington	1	-	6	7
Alabama	4	2	-	6
New York	6	-	-	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
Pennsylvania	3	1	-	4
Oklahoma	2	1	-	3
Oregon	-	-	3	3
South Carolina	2	1	-	3
Virginia	2	1	-	3
Arkansas	2	-	-	2
Idaho	-	-	2	2
Kansas	2	-	-	2
Massachusetts	2	-	-	2
Michigan	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	148	62	56	266
International				
Canada	8	2	-	10

France	5	-	-	5
Portugal	3	-	-	3
Mexico	2	-	-	2
United Kingdom	2	-	-	2
Belgium	1	-	-	1
Italy	1	-	-	1
Spain	1	-	-	1
Total International	23	2	-	25
Total	171	64	56	291

Item 3. Legal Proceedings

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

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

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 14, 2011, there were approximately 9,699 holders of record of our common stock. The table below sets forth the high and low sales prices of our common stock as well as dividends declared for each quarter during the last two fiscal years.

	High	Low	Dividends Declared
Fiscal 2010			
First Quarter	$23.68	$18.36	$ 0.13
Second Quarter	25.89	21.92	0.13
Third Quarter	23.30	18.45	0.13
Fourth Quarter	23.34	19.77	0.13
Fiscal 2009			
First Quarter	$19.00	$11.39	$ 0.13
Second Quarter	18.47	13.58	0.13
Third Quarter	24.57	15.79	0.13
Fourth Quarter	23.62	17.75	0.13

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

Stock Performance Graph

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

The graph below compares the total stockholder return on our common stock for the last five fiscal years with the total return on the NASDAQ Index and the S&P MidCap 400 Index for the same period, in each case assuming the investment of $100 on December 31, 2005 and the reinvestment of all dividends. We believe the S&P MidCap 400 Index includes companies with capitalization comparable to ours. Additionally, we chose the S&P MidCap 400 Index for comparison, as opposed to an industry index, because we do not believe that we can reasonably identify a peer group or a published industry or line-of-business index that contains companies in a similar line of business.

	Base Period	Indexed Returns Years Ending				
Company / Index	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
Pool Corporation	100	106.28	54.62	50.78	55.54	67.22
S&P MidCap 400 Index	100	110.32	119.12	75.96	104.36	132.16
NASDAQ Index	100	111.74	124.67	73.77	107.12	125.93

Purchases of Equity Securities

The table below summarizes the repurchases of our common stock in the fourth quarter of 2010.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (2)	Maximum Approximate Dollar Value that May Yet be Purchased Under the Plan (3)
October 1-31, 2010	-	$ -	-	$ 52,987,067
November 1-30, 2010	352,100	$ 21.36	352,100	$ 45,465,028
December 1-31, 2010	211,100	$ 21.92	211,100	$ 40,837,457
Total	563,200	$ 21.57	563,200	

(1) These shares may include shares of our common stock surrendered to us by employees in order to satisfy tax withholding obligations in connection with certain exercises of employee stock options and/or the exercise price of such options granted under our share-based compensation plans. There were no shares surrendered for this purpose in the fourth quarter of 2010.

(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 2010, we purchased a total of $12.1 million, or 563,200 shares, at an average price of $21.57 per share. As of February 22, 2011, $24.5 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)	2010	2009 (2)	2008	2007	2006
Statement of Income Data					
Net sales	$1,613,746	$1,539,794	$1,783,683	$1,928,367	$1,909,762
Operating income	101,245	88,440	115,476	133,774	167,382
Net income	57,638	19,202	56,956	69,394	95,024
Earnings per share:					
Basic	$ 1.17	$ 0.39	$ 1.19	$ 1.42	$ 1.83
Diluted	$ 1.15	$ 0.39	$ 1.17	$ 1.37	$ 1.74
Cash dividends declared per common share	$ 0.52	$ 0.52	$ 0.51	$ 0.465	$ 0.405
Balance Sheet Data					
Working capital	$ 265,054	$ 230,804	$ 294,552	$ 250,849	$ 227,631
Total assets	728,545	743,099	830,906	814,854	774,562
Total long-term debt, including current portion	198,700	248,700	307,000	282,525	191,157
Stockholders' equity (3)	285,182	252,187	241,734	208,791	277,684
Other					
Base business sales growth/(decline) (4)	2%	(15)%	(9)%	(1)%	10%
Number of sales centers	291	287	288	281	274

(1) During the years 2006 to 2010, we completed 9 acquisitions consisting of 37 sales centers (net of sales center closings and consolidations within one year of acquisition). For information about our recent acquisitions, see Note 2 of "Notes to Consolidated Financial Statements," included in Item 8 of this Form 10-K. Our results were negatively impacted between 2007 and 2010 due to adverse external market conditions, which included downturns in the housing market and overall economy that led to significant declines in pool and irrigation construction activities and deferred discretionary replacement purchases

by consumers.

(2) The 2009 net income and earnings per share amounts include the impact of a $26.5 million equity loss that we recognized in September 2009 related to our pro rata share of Latham Acquisition Corporation's (LAC) non-cash goodwill and other intangible asset impairment charge. The impact of this impairment charge on earnings was $0.54 per diluted share. The recognized loss resulted in the full write-off of our equity method investment in LAC. As of January 2010, we no longer had an equity interest in LAC and we did not recognize any impact related to LAC's 2010 results.

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

(4) For a discussion regarding our calculation of base business sales, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - RESULTS OF OPERATIONS," of this Form 10-K.

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

2010 FINANCIAL OVERVIEW

Financial Results

As we expected, 2010 proved to be a transitional year. We realized a return to sales and earnings growth, continued improvements in working capital management and another season of strong cash flow generation. Successful execution of our strategies was the primary factor driving our increased sales and earnings, with both our continued investment in growth initiatives and our ability to leverage the existing infrastructure to support sales growth providing significant contributions to our improved profitability.

Net sales increased 5% compared to 2009. Base business sales were up 2% due to market share gains including sales for expanded product offerings and some improvement in external market trends, which resulted in higher discretionary purchases by consumers. Base business sales growth was 3% on the swimming pool side of the business, with increases in many markets and most product categories. While sales on the irrigation side of the business decreased compared to 2009 due to continued weakness in construction markets, sales declines moderated as 2010 progressed. For a discussion of our base business calculation, see the RESULTS OF OPERATIONS section below.

Gross profit as a percentage of net sales (gross margin) remained flat year over year at 29.2% as the benefits from our improved pricing and purchasing discipline offset downward margin pressures due to the competitive pricing environment.

Selling and administrative expenses (operating expenses) increased 2% in 2010 due primarily to the impact from recent acquisitions. Base business operating expenses were essentially flat compared to 2009, with a $9.1 million increase in incentive costs offset by decreases in bad debt expense, facility lease costs and other expenses.

Operating income improved 14% to $101.2 million in 2010, while operating income as a percentage of net sales (operating margin) increased 60 basis points to 6.3%. Interest expense, net declined $3.0 million compared to 2009 due primarily to a 23% decrease in average debt outstanding.

We no longer have an equity interest in Latham Acquisition Corporation (LAC) and did not recognize any impact related to LAC's 2010 results. In 2009, we recognized a total equity loss of $28.7 million for LAC. This included a $26.5 million equity loss related to our pro rata share of LAC's non-cash goodwill and other intangible asset impairment charge and $2.2 million for our share of LAC's loss from ongoing operations.

Earnings per share was $1.15 per diluted share on net income of $57.6 million for 2010, compared to earnings per share of $0.39 per diluted share on net income of $19.2 million in 2009. The $0.76 increase in diluted earnings per share includes the $0.54 per diluted share impact from our pro rata portion of LAC's impairment charge included in the 2009 reported equity loss.

Financial Position and Liquidity

Cash provided by operations of $94.0 million in 2010 funded the following:

- payments of $7.2 million related to our 2009 and 2010 acquisitions;
- debt repayments of $50.0 million, which helped lower our borrowing costs;
- quarterly cash dividend payments to shareholders, which totaled $25.7 million for the year;

- capital expenditures of $8.1 million; and
- a portion of our $12.1 million of fourth quarter share repurchases.

Total net receivables increased 5% compared to December 31, 2009 due to an increase in current trade receivables as a result of base business sales growth, higher vendor rebate receivables and the impact from the reduction in the allowance for doubtful accounts. This increase was partially offset by reductions in our past due receivable balances due primarily to significant improvements in customer collections. As of December 31, 2010, we realized a year over year decrease of 730 basis points in our total past due receivables balance as a percentage of total receivables. Our allowance for doubtful accounts balance was $7.1 million at December 31, 2010, a decrease of $4.3 million compared to December 31, 2009 reflecting both write-offs of certain fully reserved customer accounts and our reduction of the allowance based on our improved receivables aging trends. Days sales outstanding (DSO) decreased between periods to 31.6 days at December 31, 2010 compared to 34.9 days at December 31, 2009.

Our inventory levels decreased 2% to $347.4 million as of December 31, 2010 from $355.5 million as of December 31, 2009, reflecting the success of our continued inventory rebalancing efforts. We realized this reduction despite the year over year increase in base business sales, approximately $5.9 million of inventory from acquisitions and higher inventories for expanded product offerings in tile, pool finishes and replacement parts. Our inventory turns, as calculated on a trailing twelve month basis, improved to 3.3 times at December 31, 2010 from 3.0 times at December 31, 2009.

Current Trends and Outlook

The adverse housing and economic trends over the past several years had a significant impact on our industry, driving an approximate 80% reduction in new pool construction in the United States compared to peak levels in 2005 and also contributing to more than a 30% decline in replacement and refurbishment activities. While general external market factors including consumer confidence, employment, consumer financing and economic growth remain at depressed levels, these factors have shown recent signs of improvement and we believe our 2% base business sales growth in 2010 indicates that the declines in pool construction and pool refurbishment activities have subsided in most markets. Trends are also improving on the irrigation side of our business, with slowly moderating sales declines in 2010 highlighted by a number of markets realizing sales growth in the second half of the year and higher sales overall in December 2010 compared to December 2009.

Looking ahead, we still believe there is potential for a significant sales recovery due to the build-up of deferred replacement and retrofit activity and our expectation for gradually normalized new pool and irrigation construction levels. While current economic trends indicate that consumer spending may rebound slowly and that construction activities will likely remain near current depressed levels through 2011, we believe that we are well positioned to take advantage of both the eventual market recovery and the inherent long-term growth opportunities in our industry.

In 2011, we expect our results will trend similar to the last nine months of 2010. We expect to realize modest base business sales growth in the low to mid-single digit percentages and we anticipate average inflationary product cost increases of 1% to 2% in 2011, with some price deflation for certain chemical products. Given the continued competitive pricing environment, we expect that our gross margin will be up modestly compared to 2010. Base business expenses should be up slightly, but down as a percentage of sales compared to 2010. Excluding any acquisition activity, we plan to open three new sales centers in 2011. Based on these expectations, we project that 2011 earnings per share will be in the range of $1.27 to $1.35 per diluted share. We expect cash provided by operations will approximate or exceed net income for fiscal 2011.

The forward-looking statements in this Current Trends and Outlook section are subject to significant risks and uncertainties, including changes in the economy and the housing market, the sensitivity of our business to weather conditions, our ability to maintain favorable relationships with suppliers and manufacturers, competition from other leisure product alternatives and mass merchants, and other risks detailed in Item 1A of this Form 10-K.

CRITICAL ACCOUNTING ESTIMATES

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

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

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

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for an estimate of the losses we will incur if our customers do not make required payments. We perform periodic credit evaluations of our customers and typically do not require collateral. Consistent with industry practices, we generally require payment from our customers within 30 days except for sales under early buy programs for which we provide extended payment terms to qualified customers. The extended terms usually require payments in equal installments in April, May and June or May and June, depending on geographic location. Credit losses have generally been within or better than our expectations.

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

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

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

During the year, we write off account balances when we have exhausted reasonable collection efforts and determined that the likelihood of collection is remote. These write-offs are charged against our allowance for doubtful accounts. In the past five years, write-offs have averaged approximately 0.3% of net sales annually. Write-offs as a percentage of net sales were 0.3% in 2010, 0.4% in 2009 and 0.3% in 2008. These write-off rates were higher than our long-term historical average of approximately 0.2% of net sales due to the negative impacts on some of our customer's businesses from the challenging external environment during this period. Based on our tighter credit policies, gradually improving external market trends and significant reductions in our past due receivables aging categories during 2010, we expect that write-offs will decrease in 2011 and be closer to 0.2% of net sales.

If the balance of the accounts receivable reserve increased or decreased by 20% at December 31, 2010, pretax income would change by approximately $1.4 million and earnings per share would change by approximately $0.02 per diluted share (based on the number of weighted average diluted shares outstanding for the year ended December 31, 2010).

Inventory Obsolescence

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

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

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

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

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

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

If the balance of our inventory reserve increased or decreased by 20% at December 31, 2010, pretax income would change by approximately $1.4 million and earnings per share would change by approximately $0.02 per diluted share (based on the number of weighted average diluted shares outstanding for the year ended December 31, 2010).

Vendor Incentives

Many of our vendor arrangements provide for us to receive incentives of specified amounts of consideration when we achieve any of a number of measures. These measures are generally related to the volume level of purchases from our vendors and may include negotiated pricing arrangements. We account for vendor incentives as if they are a reduction of the prices of the vendor's products and therefore a reduction of inventory until we sell the product, at which time such incentives are recognized as a reduction of cost of sales in our income statement.

Throughout the year, we estimate the amount of the incentive earned based on our estimate of total 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 annual purchases and sales of qualifying products are driven by our sales projections, which can be significantly impacted by a number of external factors including weather and changes in economic conditions. Changes in our purchasing mix also impact our incentive estimates, as incentive rates can vary depending on our volume of purchases from specific vendors. We continually revise these estimates throughout the year to reflect actual purchase levels and identifiable trends. As a result, our estimated quarterly vendor incentive accruals may include cumulative catch-up adjustments to reflect any changes in our estimates between reporting periods.

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

Income Taxes

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

As of December 31, 2010, we have not provided for United States income taxes on undistributed earnings of our foreign subsidiaries, as we have invested or expect to invest the undistributed earnings indefinitely outside of the United States. If these earnings are repatriated to the United States in the future, 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 8 foreign countries. The amount of income taxes we pay is subject to adjustment by the applicable tax authorities. We are subject to regular audits by federal, state and foreign tax authorities. Our estimate for the potential outcome of any uncertain tax issue is highly judgmental. We believe we have adequately provided for any reasonably foreseeable outcome related to these matters. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved or when statutes of limitation on potential assessments expire. These adjustments may include changes in valuation allowances that we have established. As a result of these uncertainties, our total income tax provision may fluctuate on a quarterly basis.

Incentive Compensation Accrual

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

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

Our estimated quarterly incentive compensation expense and accrual balances may vary relative to actual annual bonus expense and payouts due to the following:

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

Impairment of Goodwill

Our largest intangible asset is goodwill. At December 31, 2010, our goodwill balance was $178.5 million, representing approximately 25% 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 are required to test goodwill for impairment annually or on a more frequent basis if events or changes in circumstances occur that indicate potential impairment. If the estimated fair value of any of our reporting units has fallen below their carrying value, we compare the estimated fair value of the reporting units' goodwill to its carrying value. If the carrying value of a reporting units' goodwill exceeds its estimated fair value, we recognize the difference as an impairment loss in operating income. Since we define our operating segment as an individual sales center and we do not have operations below the sales center level, our reporting unit is an individual sales center.

In October 2010, we performed our annual goodwill impairment test. As of October 1, 2010, we had 210 reporting units with allocated goodwill balances. The highest goodwill balance is $7.1 million for our UK reporting unit. For the other reporting units, the highest goodwill balance is $5.7 million and the average goodwill balance is $0.8 million. We estimate the fair value of our reporting units by utilizing a fair value model, which requires us to make several assumptions about projected future cash flows, discount rates and multiples. In order to determine the reasonableness of the assumptions included in our fair value estimates, we compare the total estimated fair value for all aggregated reporting units to our market capitalization on the date of our impairment test. We also review for potential impairment indicators at the reporting unit level based on an evaluation of recent historical operating trends, current and projected local market conditions and other relevant factors as appropriate. Based on our annual goodwill impairment test, we determined that the goodwill attributed to all of our reporting units is not impaired.

If our assumptions or estimates in our fair value calculations change, we could incur impairment charges in future periods, which would decrease operating income and result in lower asset values on our balance sheet. For example, we performed a sensitivity test for the two key assumptions in our annual goodwill impairment test and determined that an increase in our estimated weighted average cost of capital of 50 basis points or a decrease in the estimated perpetuity growth rate of 1% could have resulted in the estimated fair value of six reporting units falling below their carrying values. The calculated goodwill impairment based on this sensitivity test was approximately $1.8 million combined for all six reporting units. Based on the combination of their higher goodwill balances and 2010 operating results at approximately break even levels, we believe that our reporting units most at risk for goodwill impairment include the UK, Spain, one New Jersey location and four Horizon locations in Texas. While one sales center in Canada continues to generate solid operating results, it is also considered at risk for goodwill impairment due to the combination of a higher than average goodwill balance and the fact that it has a small manufacturing operation that could require higher capital investments in the future.

Recent Accounting Pronouncements

We are not aware of any recent accounting pronouncements that will materially impact our Consolidated Financial Statements in future periods.

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, 2010	2009	2008
Net sales	100.0%	100.0%	100.0%
Cost of sales	70.8	70.8	71.1
Gross profit	29.2	29.2	28.9
Operating expenses	22.9	23.5	22.4
Operating income	6.3	5.7	6.4
Interest expense, net	0.4	0.6	1.1
Income before income taxes and equity earnings (losses)	5.9	5.1	5.4

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

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

Fiscal Year 2010 compared to Fiscal Year 2009

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

(Unaudited) (In thousands)	Base Business Year Ended December 31,		Excluded Year Ended December 31,		Total Year Ended December 31,	
	2010	2009	2010	2009	2010	2009
Net sales	$1,555,647	$1,521,529	$58,099	$18,265	$1,613,746	$1,539,794
Gross profit	456,400	445,300	14,862	4,424	471,262	449,724
Gross margin	29.3%	29.3%	25.6%	24.2%	29.2%	29.2%
Operating expenses	355,454	355,760	14,563	5,524	370,017	361,284
Expenses as a % of net sales	22.8%	23.4%	25.1%	30.2%	22.9%	23.5%
Operating income (loss)	100,946	89,540	299	(1,100)	101,245	88,440
Operating margin	6.5%	5.9%	0.5%	(6.0)%	6.3%	5.7%

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

Acquired	Acquisition Date	Net Sales Centers Acquired	Periods Excluded
Turf Equipment Supply, Co.	December 2010	3	December 2010
Pool Boat and Leisure, S.A.	December 2010	1	December 2010
Les Produits de Piscine Metrinox Inc.	April 2010	2	April–December 2010
General Pool & Spa Supply, Inc. (GPS) (1)	October 2009	7	January-December 2010 and October-December 2009
Proplas Plasticos, S.L. (Proplas)	November 2008	0	January-February 2010 and January-February 2009

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

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We exclude the following sales centers from base business results for a period of 15 months (parenthetical numbers for each category indicate the number of sales centers excluded as of December 31, 2010):

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

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

The table below summarizes the changes in our sales centers during 2010:

December 31, 2009	287
Acquired	6
New locations (1)	3
Consolidated	(5)
December 31, 2010	291

(1) Includes one existing centralized shipping location warehouse converted into a sales center location.

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

Net Sales

	Year Ended December 31,			
(in millions)	2010	2009	Change	
Net sales	$1,613.7	$1,539.8	$73.9	5%

Net sales for 2010 increased 5% compared to 2009, including sales related to our recent acquisitions and a 2% increase in base business sales. Base business sales on the swimming pool side of the business increased 3%, with growth of 5% in the last nine months of 2010 more than offsetting the 3% decline in base business sales during our seasonally slower first quarter. Our year over year comparative sales results improved as the first half of the 2010 season progressed based on the gradual improvement in external market trends, more favorable weather conditions after mid-March and the easing of difficult sales comparisons due to the favorable impact primarily in the first half of 2009 related to the Virginia Graeme Baker Pool and Spa Safety Act (the VGB Act). Favorable base business sales comparisons to 2009 reflect the following (listed in order of estimated magnitude):

- favorable weather conditions across the Southeast, Midwest, Northeast and Canada compared to 2009, which drove increased sales of maintenance and impulse items;
- market share gains in a number of our market segments, including sales for expanded product offerings such as replacement parts (total sales growth of 8%) and tile (total sales growth of 15%); and

- higher sales of discretionary products, reflecting improved consumer spending trends compared to 2009.

These sales increases were partially offset by the following:

- negative impacts on sales in certain markets due to adverse weather conditions, including unfavorable weather along the West Coast throughout the 2010 season and a slow start to the 2010 season in Florida and certain other sunbelt markets due to much colder than normal temperatures between January and mid-March;
- approximately $17.0 million in sales in the first half of 2009 for new drains and related safety products driven by the December 2008 effective date of the VGB Act, which imposes mandatory federal requirements on the manufacture, distribution and/or sale of suction entrapment avoidance devices such as safety drain covers, public pool drain covers and public pool drain systems;
- a 10% sales decline on the irrigation side of the business due to the continued weakness in irrigation construction markets; and
- unfavorable impacts due to price deflation on certain products, including some higher volume chemical products.

Gross Profit

	Year Ended December 31,			
(in millions)	2010	2009	Change	
Gross profit	$ 471.3	$ 449.7	$21.6	5%
Gross margin	29.2%	29.2%		

Gross margin was flat between years as continued improvements in pricing and purchasing discipline offset both the lingering negative impact from intense price competition within our industry and lower gross margins realized by our recent acquisitions.

In the seasonally slow first quarter of 2010, gross margin declined 110 basis points due primarily to the impact of margin benefits realized in the first quarter of 2009 related to our pre-price increase inventory buys in the second half of 2008 (a comparative increase of 120 basis points compared to the first quarter of 2008). As this difficult gross margin comparison to 2009 eased during the second quarter of 2010, we realized only a 20 basis point decline in gross margin compared to the second quarter of 2009.

Gross margin increased 20 basis points for the last nine months of 2010 compared to the same period in 2009, including increases of 10 basis points in the third quarter and 150 basis points in the fourth quarter. In addition to the benefits from improved pricing and purchasing discipline, this margin growth also reflected the following:

- purchasing strategies and special fourth quarter vendor incentives, which included a favorable impact due to a higher percentage of total purchases from preferred vendors;
- higher sales growth rates for higher margin items, particularly Pool Corporation branded products and tile; and
- a benefit due to geographic sales mix, with the majority of our sales growth realized in regions with higher gross margins.

The 150 basis point improvement in the seasonally slow fourth quarter also included a favorable impact of approximately 60 basis points due to our year end adjustment of estimated to actual vendor incentives earned for the year.

Operating Expenses

(in millions)	Year Ended December 31, 2010	2009	Change	
Operating expenses	$ 370.0	$ 361.3	$ 8.7	2%
Operating expenses as a percentage of net sales	22.9%	23.5%		

Total operating expenses increased 2% compared to 2009 due primarily to expenses related to our recent acquisitions. Base business operating expenses were essentially flat, with offsetting variances in different expense categories between years.

Increases in base business operating expenses compared to 2009 included the following:

- a $9.1 million increase in employee incentive costs;
- higher other variable expenses such as overtime, temporary labor and freight costs as a result of the increase in base business sales; and
- a $2.0 million increase in legal and other professional fees.

Offsetting decreases in base business expenses compared to 2009 included the following:

- a $4.7 million decrease in employee health insurance costs due primarily to fewer high dollar claims in 2010;
- a $3.9 million reduction in bad debt expense driven by significant improvements in our past due receivable aging trends;
- a $2.8 million decline in facility lease costs due to lower negotiated lease rates and the impact of recent sales center and CSL consolidations; and
- the continued but moderating impact of our cost control initiatives.

Total operating expenses as a percentage of net sales decreased approximately 60 basis points between periods.

Interest Expense, net

Interest expense, net decreased 32% between periods due primarily to a 23% lower average outstanding debt balance compared to 2009. The weighted average effective interest rate also decreased to 3.0% in 2010 from 3.4% in 2009. Interest expense, net included foreign currency transaction gains of $1.5 million in 2010 and $1.8 million in 2009.

Income Taxes

Our effective income tax rate was 39.20% at December 31, 2010 and 39.30% at December 31, 2009. There were no significant changes in our estimates related to our income tax provision.

Net Income and Earnings Per Share

Net income was $57.6 million in 2010 and earnings per share increased to $1.15 per diluted share. This compares to earnings of $0.39 per diluted share in 2009, which included a $0.54 per diluted share impact related to our pro rata share of LAC's impairment charge included in the reported equity loss. Earnings per share for 2010 included an accretive impact of approximately $0.02 per diluted share from our recent acquisitions.

Fiscal Year 2009 compared to Fiscal Year 2008

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

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

For an explanation of how we calculate base business, please refer to the discussion of base business on page 24 under the heading "Fiscal Year 2010 compared to Fiscal Year 2009".

For purposes of comparing operating results for the year ended December 31, 2009 to the year ended December 31, 2008, we excluded acquired sales centers from base business for the periods identified in the table below. As of December 31, 2009, we also excluded one existing sales center consolidated with an acquired sales center and five closed sales centers, including one closed in 2009. Since we divested our pool liner manufacturing operation in France in April 2008, we also excluded these operations from base business.

Acquired	Acquisition Date	Net Sales Centers Acquired	Periods Excluded
GPS	October 2009	7	October–December 2009
Proplas	November 2008	0	January–December 2009 and November-December 2008
National Pool Tile Group, Inc. (NPT) (1)	March 2008	8	January–May 2009 and March–May 2008
Canswim Pools	March 2008	1	January–May 2009 and March–May 2008

(1)

We acquired 15 NPT sales centers and consolidated 7 of these with existing sales centers as of December 31, 2009, including 4 in March 2008, 2 in the second quarter of 2008 and 1 in April