

POOL CORP
Form 10-K
February 29, 2012

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

FORM 10-K

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

For the fiscal year ended December 31, 2011

or

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

For the transition period from to

Commission File Number: 0-26640

POOL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-3943363
(I.R.S. Employer
Identification No.)

109 Northpark Boulevard, Covington,
Louisiana
(Address of principal executive offices)

70433-5001
(Zip Code)

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

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

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

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

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

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

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

Indicate by check mark 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 NO

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.

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

Accelerated filer

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

Smaller reporting company

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant based on the closing sales price of the registrant's common stock as of June 30, 2011 was \$1,373,585,389.

As of February 21, 2012, there were 47,511,203 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, 2012 for the Annual Meeting to be held on May 2, 2012, 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, 2011, we operated 298 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 positively impacted our industry and will continue to do so in the long term. 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;
- 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; and
- consumers using more automation and control products, higher quality materials and other pool features that add to our margin opportunities over time.

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 characteristic, along with relatively consistent rates of inflationary price increases averaging 1% to 3% that have been passed on by manufacturers and distributors, has 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 industry is also affected by other factors including, but not limited to, consumer preferences or attitudes toward pool and landscape products for environmental, safety or other reasons.

The irrigation and landscape distribution business is split between residential and commercial markets, with the majority of sales related to the residential market. Irrigation and landscape 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.

Certain trends in the housing market, the availability of consumer credit and general economic conditions (as commonly measured by Gross Domestic Product or GDP) affect our industry, particularly new pool and irrigation system starts as well as the timing and extent of pool refurbishments and equipment replacement. We believe that similar to trends for other home improvement expenditures, there is a direct correlation between industry starts and the rate of single family 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. Similar to other discretionary purchases, replacement and refurbishment activities are more impacted by economic factors such as GDP, unemployment and inflation.

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 we estimate that new pool construction has increased from a low of roughly 45,000 new units in 2009 to approximately 57,000 new units in 2011, it is still down approximately 70% compared to peak levels. Although general external market factors including consumer confidence, employment, consumer financing and economic growth remain at depressed levels, these factors have shown some improvement and we believe our 2% base business sales growth in 2010 and 10% base business sales growth in 2011 indicates that most pool markets are growing again and consumers have started to catch up on purchases deferred during the downturn.

Trends have also improved on the irrigation side of our business, with slowly moderating sales declines in 2010 followed by 8% base business sales growth in 2011 driven primarily by market share gains. Since irrigation is more heavily weighted toward new construction activities and there has not been any meaningful recovery in the housing market, growth rates for this side of our business will probably continue to lag the swimming pool side of the business.

We 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. We also expect that market conditions will continue to improve, enabling the recovery of replacement, remodeling and new construction activity to normalized levels over the next 8 to 10 years. We expect that the industry will realize an annual growth rate of approximately 4% to 8% over this time period before reverting back to 3% to 5% annual growth over the longer term.

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.

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.comTM, 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. 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 2,300 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 2007, we completed 11 acquisitions consisting of 29 sales centers (net of sales center closings and consolidations within one year of acquisition). These locations included seven sales centers added to the Horizon network ahead of the 2011 season through our acquisitions of Turf Equipment Supply Co. and The Kilpatrick Company, Inc. We also added five sales centers to our international SCP network ahead of the 2012 season, including one sales center in Germany through an acquisition completed in November 2011 and four sales centers in British Columbia, Canada through an acquisition completed in February 2012. In 2011, we opened four new sales centers and consolidated three sales centers. Given the more stabilized external environment, we expect to open five or more new sales centers in 2012.

We plan to continue to selectively expand our domestic and international swimming pool networks and our irrigation distribution network 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. In 2011, we estimate that the swimming pool industry grew 3% to 4% while the irrigation and landscape market was relatively flat. Historically, our sales growth rates have exceeded the industry’s growth rates as we have increased our market share. We believe that our high customer service levels and expanded product offerings have also enabled us to gain market share during the past six years, including the period between 2006 and 2009 when our industry contracted, and that these market share gains accelerated somewhat in 2011. 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 above average inflationary increases in product costs in 2008 and 2009. In 2011, our industry experienced more normalized price inflation of approximately 2% overall despite price deflation for certain chemical products. We anticipate price inflation will vary some by product line but average 1% to 2% overall in 2012.

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 298 sales centers in North America and Europe. Our primary markets, which have the highest concentration of swimming pools, are California, Texas, Florida and Arizona, representing approximately 50% of our net sales in 2011. 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 pool equipment such as 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 repair and remodeling of existing pools;
- irrigation and landscape products, including irrigation system components and professional lawn care equipment and supplies; 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 both functional and decorative 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 to provide support for sales and marketing efforts and for consideration in incentive plan programs. We currently have over 300 product lines and over 40 product categories. Based on our 2011 product classifications, sales for our pool and spa chemicals product category as a percentage of total net sales was 16% in 2011 and 17% in both 2010 and 2009. Chemical sales grew 4% in 2011, with 6% volume growth driven by market share gains partially offset by price deflation of approximately 2% overall. 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. Between 2009 and 2011, 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 reflected a shift toward more sales of maintenance and minor repair products due to the significant declines in new pool construction between 2005 and early 2010. 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. These locations feature showrooms where swimming pool dealers and homeowners can view and select pool components including tile, decking materials and interior pool finishes in various styles and grades. 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.

Products related to pool construction and remodeling have been an important factor in our historical base business sales growth. Sales of these products declined between 2007 and 2009 since the majority of these products are

discretionary by nature, but we realized some sales growth in 2010 followed by double digit sales growth in 2011 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 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 domestically through our SCP and Superior networks and internationally through our SCP network, while we distribute irrigation and landscape products through our Horizon network. We adopted the strategy of operating two distinct distribution networks within the U.S. swimming pool marketplace primarily for two reasons:

- to offer our customers a choice of distinctive product selections, locations 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 within population centers 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 six 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 offer seasonal terms to qualifying purchasers such as POOL. These terms typically allow us to place orders in the fall prior to any seasonal price increases, take delivery of product during the off-season months and pay for these purchases in the spring or early summer.

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%, 11% and 9%, respectively, of the cost of products we sold in 2011.

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 irrigation and landscape products in the United States. We face intense competition from many regional and local distributors in our markets and from one national wholesale distributor of irrigation and landscape products. We also face competition, to a lesser extent, from mass-market retailers and large pool supply retailers (both store-based and internet) who buy directly from manufacturers.

Some geographic markets we serve, particularly our four largest, higher density markets in California, Texas, Florida and Arizona, are more competitive than others. Barriers to entry in our industry are relatively low. 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 3,300 people at December 31, 2011. 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,		
	2011	2010	2009
United States	\$ 1,608,874	\$ 1,450,959	\$ 1,393,513
International	184,444	162,787	146,281
	\$ 1,793,318	\$ 1,613,746	\$ 1,539,794

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

	December 31,		
	2011	2010	2009
United States	\$ 37,782	\$ 27,337	\$ 27,840
International	3,612	3,348	3,592
	\$ 41,394	\$ 30,685	\$ 31,432

Available Information

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

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

Item 1A. Risk Factors

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

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

Risk Factors

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

The demand for our swimming pool, irrigation 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, irrigation and related outdoor lifestyle 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 pools 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%, 11% and 9%, respectively, of the costs of products we sold in 2011. 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, Texas, Florida and Arizona, representing approximately 50% of our net sales in 2011, 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 2007, we completed 11 acquisitions consisting of 29 sales centers (net of sales center closings and consolidations within one year of acquisition). 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 2011, approximately 67% 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 algacides and pest control products that are regulated as pesticides under the Federal Insecticide, Fungicide and Rodenticide Act and various state pesticide laws. These laws are primarily related to labeling, annual registration and licensing.

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 rely on manufacturers and other suppliers to provide us with the products we sell and distribute. As we increase the number of Pool Corporation branded products we distribute, our exposure to potential liability claims may increase. The risk of claims may also be greater with respect to products manufactured by third-party suppliers outside the United States, particularly in China. Uncertainties with respect to foreign legal systems may adversely affect us in resolving claims arising from our foreign sourced products. Even if we are successful in defending any claim relating to the products we distribute, claims of this nature could negatively impact customer confidence in our products and our company.

For foreign sourced products, we may be subject to certain trade restrictions that prevent us from obtaining products and there is also a greater risk that we may not be able to access products in a timely and efficient manner. 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.

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, 2011, we had 14 leases with remaining terms longer than seven years that expire between 2019 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 34,000 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, 2011:

Network	12/31/10	New Locations	Consolidated and Closed Locations (1)	Acquired Locations (2)	Converted Locations (3)	12/31/11
SCP	148	4	(1)	-	(1)	150
Superior	62	-	(1)	-	1	62
Horizon	56	-	(1)	5	-	60
Total Domestic	266	4	(3)	5	-	272
SCP International	25	-	-	1	-	26
Total	291	4	(3)	6	-	298

(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 2011, we consolidated three sales centers.

- (2) We completed three acquisitions in 2011, including one in Germany. We do not plan to close or consolidate any of these acquired sales centers.
- (3) In 2011, we converted one existing sales center in California from our SCP network to our Superior network.

The table below identifies the number of sales centers in each state, territory or country by distribution network as of December 31, 2011:

Location	SCP	Superior	Horizon	Total
United States				
California	23	21	17	61
Florida	32	6	4	42
Texas	16	4	10	30
Arizona	7	4	10	21
Georgia	7	2	-	9
Nevada	2	2	4	8
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
Oregon	1	-	3	4
Pennsylvania	3	1	-	4
Oklahoma	2	1	-	3
South Carolina	2	1	-	3
Virginia	2	1	-	3
Arkansas	2	-	-	2
Idaho	-	-	2	2
Kansas	2	-	-	2
Maryland	1	-	1	2
Massachusetts	2	-	-	2
Michigan	2	-	-	2
Minnesota	1	1	-	2
Connecticut	1	-	-	1
Iowa	1	-	-	1
Kentucky	-	1	-	1
Mississippi	1	-	-	1
Nebraska	1	-	-	1
New Mexico	1	-	-	1
Utah	-	-	1	1
Wisconsin	-	1	-	1
Puerto Rico	1	-	-	1
Total United States	150	62	60	272

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International				
Canada	10	-	-	10
France	5	-	-	5
Portugal	3	-	-	3
Mexico	2	-	-	2
United Kingdom	2	-	-	2
Belgium	1	-	-	1
Germany	1	-	-	1
Italy	1	-	-	1
Spain	1	-	-	1
Total International	26	-	-	26
Total	176	62	60	298

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. Litigation can be expensive and disruptive to normal business operations.

As previously disclosed, in November 2011 we entered into a proposed non-monetary settlement agreement resolving the Federal Trade Commission's (FTC) non-public investigation into whether we had engaged in conduct in violation of Section 5 of the Federal Trade Commission Act. We did not admit any liability in connection with the settlement and believe the allegations were without merit. The order approving the settlement became final on January 10, 2012.

Beginning in November 2011, a number of purported anti-trust class action suits have been filed against us in various United States District Courts. These cases are currently the subject of motions to transfer and consolidate before the Judicial Panel for Multidistrict Litigation, MDL Docket No. 2328. The plaintiffs, who are current or former customers, generally allege monopolization and attempted monopolization in violation of Section 2 of the Sherman Antitrust Act. The complaints seek unspecified compensatory and enhanced damages, interest, costs and fees and other equitable relief. We believe the complaints are without merit and we intend to vigorously defend ourselves.

While the outcome of any litigation is inherently unpredictable, based on currently available facts we do not believe that the ultimate resolution of any of these matters or other claims and litigation not discussed above will have a material adverse impact on our financial condition, results of operations or cash flows. Our view of these matters may change in the future as the litigation and related events unfold.

Item 4. Mine Safety Disclosures

Not applicable.

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 13, 2012, there were approximately 11,738 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 2011			
First Quarter	\$26.09	\$22.65	\$ 0.13
Second Quarter	30.98	24.40	0.14
Third Quarter	30.63	22.60	0.14
Fourth Quarter	30.57	24.94	0.14

Fiscal 2010			
First			
Quarter	\$23.68	\$18.36	\$ 0.13
Second			0.13
Quarter	25.89	21.92	
Third			0.13
Quarter	23.30	18.45	
Fourth			0.13
Quarter	23.34	19.77	

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 six times including in the fourth quarter of 2004, annually in the second quarter of 2005 through 2008 and in the second quarter of 2011. 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, 2006 and the reinvestment of all dividends. We believe the S&P MidCap 400 Index includes companies with market capitalization comparable to ours. Additionally, we chose the S&P MidCap 400 Index for comparison, as opposed to an industry index, because we do not believe that we can reasonably identify a peer group or a published industry or line-of-business index that contains companies in a similar line of business.

Company / Index	Base Period	Indexed Returns Years Ending				
	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
Pool Corporation	100	51.40	47.78	52.26	63.25	86.17
S&P MidCap 400 Index	100	107.98	68.86	94.60	119.80	117.72
NASDAQ Index	100	110.26	65.65	95.19	112.10	110.81

Purchases of Equity Securities

The table below summarizes the repurchases of our common stock in the fourth quarter of 2011.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (2)	Maximum Approximate Dollar Value of Shares That May Yet be Purchased Under the Plan (3)
October 1-31, 2011	27,845	\$ 25.00	27,845	\$ 79,512,765
November 1-30, 2011	263,779	\$ 28.09	263,779	\$ 72,103,873
December 1-31, 2011	192,142	\$ 29.22	135,043	\$ 68,231,036
Total	483,766	\$ 28.36	426,667	

- (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 57,099 shares surrendered for this purpose in December 2011.
- (2) In May 2011, our Board authorized a new \$100.0 million share repurchase program for the repurchase of shares of our common stock in the open market at prevailing market prices or in privately negotiated transactions. This program replaced our previous share repurchase program.
- (3) In 2011, we purchased a total of \$71.0 million, or 2,823,666 shares, at an average price of \$25.15 per share. As of February 21, 2012, \$68.2 million of the authorized amount remained available under our new share repurchase program.

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)	2011	2010	2009 (2)	2008	2007
Statement of Income Data					
Net sales	\$1,793,318	\$1,613,746	\$1,539,794	\$1,783,683	\$1,928,367
Operating income	125,067	101,245	88,440	115,476	133,774
Net income	71,993	57,638	19,202	56,956	69,394
Earnings per share:					
Basic	\$ 1.49	\$ 1.17	\$ 0.39	\$ 1.19	\$ 1.42
Diluted	\$ 1.47	\$ 1.15	\$ 0.39	\$ 1.17	\$ 1.37
Cash dividends declared per common share					
	\$ 0.55	\$ 0.52	\$ 0.52	\$ 0.51	\$ 0.465
Balance Sheet Data					
Working capital	\$ 307,144	\$ 265,054	\$ 230,804	\$ 294,552	\$ 250,849
Total assets	798,622	728,545	743,099	830,906	814,854
Total long-term debt, including current portion	247,300	198,700	248,700	307,000	282,525
Stockholders' equity	279,746	285,182	252,187	241,734	208,791
Other					
Base business sales growth/(decline) (3)	10%	2%	(15)%	(9)%	(1)%
Number of sales centers	298	291	287	288	281

(1) During the years 2007 to 2011, we completed 11 acquisitions consisting of 29 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.
- (3) 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

2011 FINANCIAL OVERVIEW

Financial Results

We believe our 2011 results are a testament to outstanding execution at all levels of our organization and reflect a very strong performance in a year characterized by a stabilized but still challenging economic environment.

Net sales increased 11% compared to 2010, including a 10% increase in base business sales. This improvement was due primarily to market share gains, but also reflected demand growth, the impact of inflationary product cost increases and approximately 1% growth from favorable currency fluctuations. Demand growth was evidenced by higher replacement activity attributable to the aging installed base of swimming pools and a modest improvement in consumer discretionary expenditures compared to the restrained levels experienced in 2010.

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

Gross profit increased 13% compared to 2010, while gross profit as a percentage of net sales (gross margin) increased 40 basis points to 29.6%. This increase reflects continued improvements in sales, pricing and purchasing discipline and a 10 basis point contribution from higher freight out income, which compensated for higher delivery costs.

Selling and administrative expenses (operating expenses) for 2011 increased 10%, with base business operating expenses up 8% year over year. This included increases of 4% from higher employee incentive expenses, 1% from higher delivery costs and 1% combined due to bad debt expense and the impact from currency fluctuations.

Operating income for the year improved 24%, while operating income as a percentage of net sales (operating margin) increased 70 basis points to 7.0%. Net interest expense increased \$1.3 million due to the impact of foreign currency transaction gains and losses, with losses of \$0.6 million recognized in 2011 compared to gains of \$1.5 million recognized in 2010. Interest expense related to borrowings declined approximately \$0.7 million in 2011 due to a lower weighted average effective interest rate on 6% higher average debt compared to 2010.

Net income increased 25% compared to 2010, while earnings per share was up 28% to \$1.47 per diluted share.

Financial Position and Liquidity

Cash provided by operations of \$75.1 million in 2011 was \$3.1 million more than net income and, combined with our \$48.6 million increase in debt, funded the following:

- payments of \$6.4 million related to acquisitions;
- capital expenditures of \$19.6 million;
- quarterly cash dividend payments to shareholders, which totaled \$26.5 million for the year; and
- share repurchases of \$71.0 million.

Total net receivables increased 9% compared to December 31, 2010 due primarily to an increase in current trade receivables as a result of December base business sales growth, higher vendor receivables and the impact from the reduction in the allowance for doubtful accounts. Our allowance for doubtful accounts balance was \$5.9 million at December 31, 2011, a \$1.2 million decrease compared to December 31, 2010 that reflects both write-offs of certain fully reserved customer accounts and significant improvements in our receivable aging trends. Days sales outstanding

(DSO) improved between periods to 29.9 days at December 31, 2011 compared to 31.6 days at December 31, 2010.

Inventory levels were up 11% to \$386.9 million at December 31, 2011 compared to levels at December 31, 2010. Excluding inventory of approximately \$5.5 million from recent acquisitions, inventories increased 10% year over year. This increase was consistent with the increase in base business sales and virtually all of the inventory growth was in our inventory classes with the highest sales volumes. Our inventory turns, as calculated on a trailing twelve month basis, slowed to 3.2 times at December 31, 2011 from 3.3 times at December 31, 2010.

Total debt outstanding was \$247.3 million at December 31, 2011, an increase of \$48.6 million compared to December 31, 2010.

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 we estimate that new pool construction has increased from a low of roughly 45,000 new units in 2009 to approximately 57,000 new units in 2011, construction levels are still down approximately 70% compared to peak levels. Although general external market factors including consumer confidence, employment, consumer financing and economic growth remain at depressed levels, these factors have shown some improvement and we believe our 2% base business sales growth in 2010 and our 10% base business sales growth in 2011 indicates that most pool markets are growing again and consumers have started to catch up on purchases deferred during the downturn.

Trends have also improved on the irrigation side of our business, with slowly moderating sales declines in 2010 followed by 8% base business sales growth in 2011 driven primarily by market share gains. Since irrigation is more heavily weighted toward new construction activities and there has not been any meaningful recovery in the housing market, growth rates for this side of our business will probably continue to lag the swimming pool side of the business.

Looking ahead, we believe there is potential for a significant sales recovery due to the build-up of deferred replacement and retrofit activity. We also expect that market conditions will continue to improve, enabling the recovery of replacement, remodeling and new construction activity to normalized levels over the next 8 to 10 years. We expect that the industry will realize an annual growth rate of approximately 4% to 8% over this time period before reverting back to 3% to 5% annual growth over the longer term. 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 2012, we expect that the macroeconomic environment will be similar to 2011. As such, we anticipate that modest industry growth plus additional market share gains driven by our superior customer service and expanding product base will result in 5% to 8% base business sales growth. This includes our expectation for average inflationary product cost increases of 1% to 2%. We expect that our gross margin will improve modestly for the year in 2012. However, we believe that differences in product and geographic sales mix could result in quarterly gross margin comparisons versus 2011 that vary by 30 or more basis points.

The most significant factor impacting our higher expense growth in 2011 was employee incentives. This increase reflected both the catch-up of incentives to more normalized levels following the business downturn in 2007-2009, and even more significantly, a reward to employees for exceptional performance in 2011. Considering the level of 2011 employee incentives and given our outlook for 2012, we expect employee incentive costs will be down year-over-year. Overall, we anticipate a modest increase in expenses in 2012, with higher growth in the first and fourth quarters and less in the second and third quarters due to the timing of our incentive compensation accruals. The majority of the projected decline in employee incentive costs should be in the second and third quarters, which is when we accrue the majority of our incentive compensation based on our greater profitability in these months. With more normalized expense growth, we expect base business results will generate operating profit growth as a percentage of base business sales growth (contribution margin) of 20% or higher in 2012.

Based on these expectations, we project that 2012 earnings per share will be approximately \$1.69 to \$1.79 per diluted share. We expect cash provided by operations will exceed net income for fiscal 2012.

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 balances greater than \$20,000 and more than 60 days past due. 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 0.2% in 2011, 0.3% in 2010 and 0.4% in 2009. Write-offs in 2009 and 2010 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 between 2007 and 2010. Based on gradually improving external market trends and significant reductions in our past due receivables aging categories during 2010 and 2011, we expect that write-offs will remain at approximately 0.2% of net sales in 2012.

If the balance of the accounts receivable reserve increased or decreased by 20% at December 31, 2011, pretax income would change by approximately \$1.2 million and earnings per share would change by approximately \$0.01 per diluted share (based on the number of weighted average diluted shares outstanding for the year ended December 31, 2011).

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 (or 36 months for tile products). 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 (or 36 months for tile products)
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, 2011, 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, 2011).

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 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, future inventory levels 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, 2011, 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. 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. Determining the amount of unrecognized deferred tax liability on these undistributed earnings is not practicable due to the complexity of tax laws and regulations and the varying circumstances, tax treatments and timing of any future repatriation.

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, 1 United States territory and 9 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, 2011, our goodwill balance was \$177.1 million, representing approximately 22% 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 unit's goodwill to its carrying value. If the carrying value of a reporting unit's 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. As of October 1, 2011, we had 209 reporting units with allocated goodwill balances. The highest goodwill balance was \$7.1 million for our UK reporting unit. For the other reporting units, the highest goodwill balance was \$5.7 million and the average goodwill balance was \$0.8 million.

We estimate the fair value of our reporting units by utilizing a present value model that incorporates our assumptions for 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.

In October 2011, we performed our annual goodwill impairment test and identified three Horizon locations in Texas that had estimated fair values below their carrying values. The combined carrying value of goodwill for these three reporting units was \$4.6 million. Since the estimated fair values for each reporting unit's goodwill was below the respective carrying values, we recognized the total difference of \$1.6 million as an impairment loss. We recorded this impairment in selling and administrative expenses on the Consolidated Statements of Income. We determined that the goodwill attributed to each of our other reporting units was not impaired.

Based on the combination of their higher goodwill balances and 2011 operating results at approximately break-even levels, we believe that our reporting units most at risk for goodwill impairment include the three Horizon locations in Texas that had a recorded goodwill impairment in 2011 as well as two additional Horizon locations in Texas, one Horizon location in Nevada, one Superior location in New Jersey and our reporting units in the UK and Spain. As of December 31, 2011, these reporting units had an aggregate goodwill balance of \$19.2 million.

If our assumptions or estimates in our fair value calculations change, we could incur additional impairment charges in future periods, especially related to the reporting units discussed above. Additional impairment charges would decrease operating income and result in lower asset values on our balance sheet. We performed a sensitivity test for the two key assumptions in our 2011 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 50 basis points could have resulted in the estimated fair value of two additional at risk reporting units falling below their carrying values. The total incremental calculated goodwill impairment based on this sensitivity test was approximately \$0.8 million.

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,		
	2011	2010	2009
Net sales	100.0%	100.0%	100.0%
Cost of sales	70.4	70.8	70.8
Gross profit	29.6	29.2	29.2
Operating expenses	22.7	22.9	23.5
Operating income	7.0	6.3	5.7
Interest expense, net	0.4	0.4	0.6
Income before income taxes and equity earnings (losses)	6.5	5.9	5.1

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 2011, 2010 and 2009. We have included the results of operations in our consolidated results since the respective acquisition dates.

Fiscal Year 2011 compared to Fiscal Year 2010

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

(Unaudited) (in thousands)	Base Business		Excluded		Total	
	Year Ended December 31,		Year Ended December 31,		Year Ended December 31,	
	2011	2010	2011	2010	2011	2010
Net sales	\$1,766,651	\$1,607,892	\$26,667	\$5,854	\$1,793,318	\$1,613,746
Gross profit	523,778	469,515	7,812	1,747	531,590	471,262
Gross margin	29.6%	29.2%	29.3%	29.8%	29.6%	29.2%
Operating expenses	397,822	368,603	8,701	1,414	406,523	370,017
Expenses as a % of net sales	22.5%	22.9%	32.6%	24.2%	22.7%	22.9%
Operating income (loss)	125,956	100,912	(889)	333	125,067	101,245

Operating
margin

7.1%

6.3%

(3.3)%

5.7%

7.0%

6.3%

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

Acquired	Acquisition Date	Net Sales Centers Acquired	Periods Excluded
G.L. Cornell Company	December 2011	1	December 2011
Poolway Schwimmbadtechnik GmbH	November 2011	1	November–December 2011
The Kilpatrick Company, Inc.	May 2011	4	May–December 2011
Turf Equipment Supply Co.	December 2010	3	January–December 2011 and December 2010
Pool Boat and Leisure, S.A.	December 2010	1	January–December 2011 and December 2010
Les Produits de Piscine Metrincox Inc.	April 2010	2	January–June 2011 and April–June 2010

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, 2011):

- acquired sales centers (see table above);
- existing sales centers consolidated with acquired sales centers (1);
- 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 2011:

December 31, 2010	291
Acquired	6
New locations	4
Consolidated	(3)
December 31, 2011	298

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

Net Sales

(in millions)	Year Ended December 31,		
	2011	2010	Change
Net sales	\$1,793.3	\$1,613.7	\$179.6 11%

Net sales for 2011 increased 11% compared to 2010, including a 10% increase in base business sales and a 1% increase related to our recent acquisitions and new sales centers. Our base business sales growth included a 10% increase on the swimming pool side of the business and an 8% increase on the irrigation side of the business. The principal driver of base business sales growth was market share gains, which we attributed to continued improvements in customer service levels, benefits from our focus on the building materials product segment and retail customer segment of our industry and further expansion of our product offerings. Other factors contributing to the sales growth included the following (listed in order of estimated magnitude):

- higher replacement activity attributable to the aging installed base of swimming pools;
- the impact of inflationary product cost increases (estimated at approximately 2%);
- a modest improvement in consumer discretionary expenditures compared to the restrained levels experienced in 2010; and
- approximately 1% growth from favorable currency fluctuations.

One example of our success in achieving market share gains was the 18% sales growth for our building material products, which include tile and specialty pool finish products. The impact of double digit sales growth rates for products related to replacement and remodel activity was partially offset by lower growth rates for maintenance and repair products. Chemical sales grew 4% compared to 2010, with volumes up close to 6% and an unfavorable impact of 2% from price deflation on certain chemical products.

We realized more moderate sales growth rates in the last nine months of 2011 compared to the 15% base business sales growth realized in the first quarter of 2011, which had easier sales comparisons to the same period in 2010 and benefited from more favorable weather conditions across most of the sunbelt markets compared to the first quarter of 2010. See discussion of significant weather impacts under the subheading Seasonality and Quarterly Fluctuations beginning on page 32.

Gross Profit

(in millions)	Year Ended December 31,		
	2011	2010	Change
Gross profit	\$ 531.6	\$ 471.3	\$60.3 13%
Gross margin	29.6%	29.2%	

Gross margin increased 40 basis points between periods, reflecting continued improvements in sales, pricing and purchasing discipline. This included a continued migration of sales to higher margin preferred vendor and Pool Corporation branded products and some benefit attributed to the impact of mid-year vendor price increases implemented by some vendors. We realized a favorable impact of 10 basis points related to higher freight out income, which compensated for higher delivery costs included in operating expenses. In 2011, we also experienced a more normalized competitive pricing environment in some markets compared to the past few years when our industry contracted.

Year over year gross margin comparisons varied by quarter, with improvements of 90 basis points in the seasonally slower first quarter, 50 basis points in the second quarter and 60 basis points in the third quarter compared to a decline of 60 basis points in the fourth quarter. The majority of the improvement in the first quarter was due to an easier comparison to the first quarter of 2010 when our gross margin was down 110 basis points from the first quarter of 2009. Fourth quarter margins were down due primarily to the favorable impact on fourth quarter 2010 gross margin from certain non-recurring vendor incentives.

Operating Expenses

(in millions)	Year Ended December 31,		Change
	2011	2010	
Operating expenses	\$ 406.5	\$ 370.0	\$ 36.5 10%
Operating expenses as a percentage of net sales	22.7%	22.9%	

Total operating expenses increased 10% compared to 2010, including an 8% increase in base business operating expenses due primarily to the following:

- a \$15.4 million increase in employee incentive costs, which reflected the catch-up of incentives to more normalized levels following the business downturn in 2007-2009, rewards to employees for exceptional financial and operational performance in 2011, and accruals for our longer-term senior management incentive program;
- other variable expenses, which increased along with our base business sales growth;
- a \$3.3 million increase in delivery costs, including higher delivery volumes and higher fuel costs;
- a \$2.1 million increase in bad debt expense, which reflects a normalized expense level compared to 2010 when we recorded an adjustment in the second quarter that reduced the allowance for doubtful accounts due to significantly better than expected customer collections;
- a \$2.1 million impact from currency fluctuations; and
- \$1.6 million of goodwill impairment expense.

The only significant base business expense reduction compared to 2010 was a \$2.1 million decline in facility lease costs, which reflected the continued but moderating impact from lower negotiated lease rates and facility consolidations in 2010 and 2011.

Interest Expense, net

Interest expense, net increased \$1.3 million due primarily to the impact of foreign currency transaction gains and losses, with losses of \$0.6 million recognized in 2011 compared to gains of \$1.5 million recognized in 2010. Interest expense related to borrowings declined approximately \$0.7 million in 2011, despite a \$0.3 million realized loss related to the early termination of interest rate swaps in the fourth quarter. The decline in interest expense on borrowings was due to a lower weighted average effective interest rate on 6% higher average debt compared to 2010. The weighted average effective interest rate decreased to 2.6% in 2011 from 3.0% in 2010.

Income Taxes

Our effective income tax rate was 38.70% at December 31, 2011 and 39.20% at December 31, 2010. The decline in rates between years was due primarily to tax credits and other benefits realized in 2011 that we do not expect to realize in 2012. There were no significant changes in our estimates related to our income tax provision.

Net Income and Earnings Per Share

Net income increased 25% to \$72.0 million in 2011, while earnings per share increased 28% to \$1.47 per diluted share. This increase included accretive impacts of approximately \$0.05 per diluted share from the reduction in our weighted average shares outstanding due to our share repurchase activities and approximately \$0.02 per diluted share from favorable currency fluctuations in 2011.

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		Excluded		Total	
	Year Ended December 31,		Year Ended December 31,		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.

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).

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

(in millions)	Year Ended December 31,			Change
	2010	2009		
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

(in millions)	Year Ended December 31,		
	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.

Seasonality and Quarterly Fluctuations

Our business is highly seasonal. In general, sales and operating income are highest during the second and third quarters, which represent the peak months of both swimming pool use and installation and landscape installations and maintenance. Sales are substantially lower during the first and fourth quarters, when we may incur net losses. In 2011, approximately 67% of our net sales and over 100% of our operating income were generated in the second and third quarters of the year.

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

The following table presents certain unaudited quarterly data for 2011 and 2010. We have included income statement and balance sheet data for the most recent eight quarters to allow for a meaningful comparison of the seasonal fluctuations in these amounts. In our opinion, this information reflects all normal and recurring adjustments considered necessary for a fair presentation of this data. Due to the seasonal nature of our industry, the results of any one or more quarters are not necessarily a good indication of results for an entire fiscal year or of continuing trends.

(Unaudited) (in thousands)	QUARTER							
	2011				2010			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Statement of Income Data								
Net sales	\$312,889	\$706,423	\$503,584	\$270,422	\$269,833	\$647,467	\$455,020	\$241,426
Gross profit	91,410	211,439	147,906	80,835	76,292	190,534	130,869	73,567
Operating income (loss)	576	97,921	40,913	(14,343)	(7,888)	88,869	37,047	(16,783)
Net income (loss)	(638)	58,577	24,169	(10,115)	(6,111)	52,770	22,784	(11,805)
Net sales as a % of annual net sales	17%	39%	28%	15%	17%	40%	28%	15%
Gross profit as a % of annual gross profit	17%	40%	28%	15%	16%	40%	28%	16%
Operating income (loss) as a % of annual operating income	0%	78%	33%	(11)%	(8)%	88%	37%	(17)%

Balance Sheet Data									
Receivables, net	\$173,787	\$266,032	\$160,647	\$110,555	\$157,568	\$238,638	\$155,252	\$101,543	
Product inventories, net	438,791	389,763	337,698	386,924	382,380	331,537	306,609	347,439	
Accounts payable	303,395	247,904	120,221	177,437	251,590	221,374	127,995	169,700	
Total debt	280,157	306,049	268,700	247,300	278,150	266,131	231,200	198,700	

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

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

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

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

Overall, we believe that weather had a small favorable impact on sales in 2011. Sales benefited from favorable weather conditions in the Southeast and Southwest, including record high temperatures in Texas, although this impact was partially offset by unfavorable conditions throughout the year on the West Coast due to cooler than average temperatures. In the first quarter of 2011, our sales benefited from much more favorable weather conditions across the Sunbelt markets compared to the same period in 2010. Sales in our North Texas and Oklahoma markets were also positively impacted by repair and replacement activity for freeze damaged pool equipment. While our sales in the second quarter of 2011 benefited from above average temperatures across the Southeast, a slow start to the pool season in the Midwest (due to record precipitation levels) and closer to average temperatures across the Northeast resulted in some unfavorable comparisons to the same period in 2010. In the third quarter of 2011, we estimate that the weather impact on sales was neutral overall compared to both the same period in 2010 and long-term averages. Weather conditions were more favorable in the fourth quarter of 2011, with warmer temperatures across much of the Eastern half of the country compared to the fourth quarter of 2010.

Our first quarter 2010 sales were negatively impacted by unfavorable weather conditions across the Sunbelt markets between January and mid-March, including record cold weather in Florida and much colder than average temperatures across the rest of the Southeast. However, warmer weather in these regions during the latter half of March and near record warm temperatures in March across our markets in the Northeast and Canada helped drive a late rebound in our daily sales rates and flat base business sales overall for March compared to the same period in 2009. Sales in our second and third quarters of 2010 benefitted from much more favorable weather conditions across the Southeast, Midwest and Northeast compared to the same periods in 2009, including record or near record high temperatures across the eastern half of the United States and our markets in Canada during the second quarter of 2010. However, this benefit was largely offset by the adverse impact from unseasonably cool weather along the West Coast throughout the 2010 pool season, most notably in California, our largest market.

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

LIQUIDITY AND CAPITAL RESOURCES

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

- cash flows generated from operating activities;
- the adequacy of available bank lines of credit;
- acquisitions;
- scheduled debt repayments;
- dividend payments;
- capital expenditures;
- the timing and extent of share repurchases; and
- the ability to attract long-term capital with satisfactory terms.

Our primary capital needs are seasonal working capital obligations and other general corporate purposes, including acquisitions, dividend payments and share repurchases. Our primary sources of working capital are cash from operations supplemented by bank borrowings, which have historically been sufficient to support our growth and finance acquisitions. The same principle applies to funds used for capital expenditures and share repurchases.

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

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

While historically our capital expenditures have averaged 0.5% to 0.75% of net sales, they were below and at the bottom of this range between 2008 and 2010 due to lower capacity expansion. In 2011, capital expenditures increased to 1.1% of net sales since we began purchasing rather than leasing new vehicles and forklifts. Going forward, we project capital expenditures will be relatively consistent with 2011 and average approximately 1.0% of net sales.

Sources and Uses of Cash

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

	Year Ended December 31,		
	2011	2010	2009
Operating activities	\$ 75,103	\$ 93,959	\$ 113,250
Investing activities	(25,578)	(14,251)	(18,105)
Financing activities	(40,554)	(85,158)	(99,344)

Cash provided by operations in 2011 exceeded net income by \$3.1 million. Compared to last year, cash provided by operations decreased primarily due to our drawdown of inventories in 2010 and the impact of higher comparative inventory levels in 2011. The increase in cash used in investing activities compared to 2010 reflects higher capital expenditures, which included a few large information technology upgrade projects and an impact of approximately \$6.1 million related to purchasing rather than leasing new vehicles and forklifts in 2011. Cash used in financing activities in 2011 reflects \$48.6 million of net debt borrowings, which helped fund \$71.0 million of share repurchases.

On October 19, 2011, we entered into a new \$430.0 million unsecured syndicated senior credit facility (the Credit Facility) described further below. Since the Credit Facility replaced and refinanced the outstanding balances under our \$240.0 million unsecured revolving credit facility (the Previous Revolver), proceeds from and payments on revolving lines of credit in 2011 reflect the \$161.5 million payoff of the Previous Revolver.

Cash provided by operations in 2010 declined \$19.3 million compared to 2009 due primarily to a decline in cash generated from working capital improvements. In 2009, cash provided by operations benefited from a 17% year over year reduction in accounts receivable balances and a 12% year over year reduction in inventory levels as of December 31, 2009. This benefit to cash provided by operations in 2009 more than offset the unfavorable impact of paying our \$30.0 million deferred third and fourth quarter 2008 estimated federal income taxes in January 2009. In 2010, the decrease in cash used in investing activities was due to comparatively lower cash paid for acquisitions. The change between periods in cash flows used in financing activities reflects lower net debt payments in 2010, which correlates with the comparative decline in cash provided by operating activities, partially offset by the impact of our share repurchases in the fourth quarter of 2010.

Future Sources and Uses of Cash

The Credit Facility provides for \$430.0 million in borrowing capacity under a five-year revolving credit facility and includes sublimits for the issuance of swingline loans and standby letters of credit. Pursuant to an accordion feature, the aggregate maximum principal amount of the commitments under the Credit Facility may be increased at our request and with agreement by the lenders by up to \$75.0 million, to a total of \$505.0 million. The Credit Facility matures on October 19, 2016.

At December 31, 2011, there was \$147.3 million outstanding and \$280.0 million available for borrowing under the Credit Facility. We currently have five interest rate swap agreements in place that reduce our exposure to fluctuations in interest rates on the Credit Facility. These swap agreements convert the Credit Facility's variable interest rate to fixed rates of 1.185% on notional amounts totaling \$50.0 million, 1.100% on a notional amount of \$50.0 million, 1.050% on a notional amount of \$25.0 million and 0.990% on a notional amount of \$25.0 million. Interest expense related to the notional amounts under these swaps is based on the fixed rates plus the applicable margin on the Credit Facility. The swap agreement with a 1.050% fixed rate was effective January 17, 2012 and the swap agreement with a 0.990% fixed rate was effective January 19, 2012. The other three swap agreements were in place as of December 31, 2011. All five swap agreements will terminate on October 19, 2016. The weighted average effective interest rate for the Credit Facility as of December 31, 2011 was approximately 2.2%, excluding commitment fees.

We used the Credit Facility to pay our \$100.0 million Floating Rate Senior Notes (the Notes) at maturity on February 12, 2012. We also intend to use the Credit Facility for general corporate purposes and to fund future growth initiatives.

Financial covenants on the Credit Facility include maintenance of a maximum average total leverage ratio and a minimum fixed charge coverage ratio, which are our most restrictive financial covenants. As of December 31, 2011, the calculations of these two covenants are detailed below:

- **Maximum Average Total Leverage Ratio.** On the last day of each fiscal quarter, our average total leverage ratio must be less than 3.25 to 1.00. Average Total Leverage Ratio is the ratio of the trailing twelve months (TTM) Average Total Funded Indebtedness plus the TTM Average Accounts Securitization Proceeds divided by the TTM EBITDA (as those terms are defined in the Credit Facility). As of December 31, 2011, our average total leverage ratio equaled 1.80 (compared to 1.99 as of December 31, 2010) and the TTM average total debt amount used in this calculation was \$261.1 million.
- **Minimum Fixed Charge Coverage Ratio.** On the last day of each fiscal quarter, our fixed charge ratio must be greater than or equal to 2.25 to 1.00. Fixed Charge Ratio is the ratio of the TTM EBITDAR (as defined in the Credit Facility) divided by TTM Interest Expense (as defined in the Credit Facility) paid or payable in cash plus TTM Rental Expense (as defined in the Credit Facility). As of December 31, 2011, our fixed charge ratio equaled

3.26 (compared to 2.78 as of December 31, 2010) and TTM Rental Expense was \$53.5 million.

The Credit Facility also limits the declaration and payment of dividends on our common stock to no more than 50% of the preceding year's Net Income (as defined in the Credit Facility), provided no default or event of default has occurred and is continuing, or would result from the payment of dividends. Further, dividends must be declared and paid in a manner consistent with our past practice. Under the Credit Facility, we may repurchase shares of our common stock provided no default or event of default has occurred and is continuing, or would result from the repurchase of shares, and our maximum average total leverage ratio (determined on a pro forma basis) is less than 2.50 to 1.00. Other covenants include restrictions on our ability to grant liens, incur indebtedness, make investments, merge or consolidate, and sell or transfer assets. Failure to comply with any of our financial covenants or any other terms of the Credit Facility could result in penalty payments, higher interest rates on our borrowings or the acceleration of the maturities of our outstanding debt.

As of December 31, 2011, we were in compliance with all covenants and financial ratio requirements. We believe we will remain in compliance with all covenants and financial ratio requirements throughout 2012. For additional information regarding our debt arrangements, see Note 5 of “Notes to Consolidated Financial Statements,” included in Item 8 of this Form 10-K.

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

As of February 21, 2012, \$68.2 million of the current Board authorized amount under our share repurchase program remained available. We expect to repurchase additional shares on the open market from time to time depending on market conditions. We plan to fund these repurchases with cash provided by operations and borrowings under the Credit Facility.

Contractual Obligations

At December 31, 2011 our contractual obligations for long-term debt and operating leases were as follows (in thousands):

	Total	Payments Due by Period			
		Less than	1-3	3-5	More than
		1 year	years	years	5 years
Long-term debt	\$243,700	\$ —	\$ —	\$ 243,700	\$ —
Operating leases	149,657	41,952	60,188	33,264	14,253
	\$393,357	\$ 41,952	\$ 60,188	\$ 276,964	\$ 14,253

For additional discussion related to our debt, see Note 5 of “Notes to Consolidated Financial Statements,” included in Item 8 of this Form 10-K. The table below contains estimated interest payments related to our long-term debt obligations listed in the table above. Our estimates of future interest payments are calculated based on the December 31, 2011 outstanding balances of each of our debt instruments, using the fixed rates under our interest rate swap agreements for the applicable notional amounts and the weighted average effective interest rates as of December 31, 2011 for the remaining outstanding balances not covered by our swaps. To project the estimated interest expense to coincide with the time periods used in the table above, we have projected the estimated debt balances for future years based on the scheduled maturity date of the Credit Facility.

	Total	Estimated Payments due by Period			
		Less than	1-3	3-5	More than
		1 year	years	years	5 years
Interest	\$ 24,472	\$ 5,023	\$ 10,206	\$ 9,243	\$ —

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rate Risk

Our earnings are exposed to changes in short-term interest rates because of the variable interest rates on our debt. However, we have entered into interest rate swap agreements to reduce our exposure to fluctuations in interest rates. For information about our debt arrangements and interest rate swaps, see Note 5 of “Notes to Consolidated Financial Statements,” included in Item 8 of this Form 10-K.

In 2011, there was no interest rate risk related to the notional amounts under our interest rate swaps for the Previous Revolver, the Credit Facility and the Notes. The portions of our outstanding balances under the Previous Revolver, the Credit Facility and the Notes that were not covered by our interest rate swaps were subject to variable interest rates. To calculate the potential impact in 2011 related to interest rate risk, we performed a sensitivity analysis assuming that we borrowed the maximum available amounts under the Previous Revolver or the Credit Facility, in each case excluding the accordion feature. In this analysis, we assumed that the variable interest rates for these instruments and the Notes increased 1.0%. Based on this calculation, our pretax income would have decreased by approximately \$2.8 million and earnings per share would have decreased by approximately \$0.04 per diluted share (based on the number of weighted average diluted shares outstanding for the year ended December 31, 2011). The maximum amount available under the Previous Revolver was \$240.0 million excluding the \$75.0 million accordion feature.

Failure of our swap counterparties would result in the loss of any potential benefit to us under our swap agreements. In this case, we would still be obligated to pay the variable interest payments underlying our debt agreements. Additionally, failure of our swap counterparties would not eliminate our obligation to continue to make payments under our existing swap agreements if we continue to be in a net pay position.

Currency Risk

We have wholly owned subsidiaries in Canada, the United Kingdom, Belgium, France, Germany, Italy, Portugal, Spain and Mexico. Based on the functional currencies for these international subsidiaries as shown in the table below, changes in exchange rates for these currencies may positively or negatively impact our sales, operating expenses and earnings. Historically, we have not hedged our currency exposure and fluctuations in exchange rates have not materially affected our operating results. While our international operations accounted for only 10.3% of total net sales in 2011, our exposure to currency rate fluctuations could be material in 2012 and future years to the extent that either currency rate changes are significant or that our international operations comprise a larger percentage of our consolidated results.

Functional Currencies	
Canada	Canadian Dollar
United Kingdom	British Pound
Belgium	Euro

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France Euro

Germany Euro

Italy Euro

Portugal Euro

Spain Euro

Mexico Peso

Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Pool Corporation

We have audited the accompanying consolidated balance sheets of Pool Corporation (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pool Corporation at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Pool Corporation's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 29, 2012 expressed an unqualified opinion thereon.

New Orleans, Louisiana
February 29, 2012

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

	Year Ended December 31,		
	2011	2010	2009
Net sales	\$ 1,793,318	\$ 1,613,746	\$ 1,539,794
Cost of sales	1,261,728	1,142,484	1,090,070
Gross profit	531,590	471,262	449,724
Selling and administrative expenses	406,523	370,017	361,284
Operating income	125,067	101,245	88,440
Interest expense, net	7,964	6,619	9,667
Income before income taxes and equity earnings (losses)	117,103	94,626	78,773
Provision for income taxes	45,319	37,093	30,957
Equity earnings (losses) in unconsolidated investments, net	209	105	(28,614)
Net income	\$ 71,993	\$ 57,638	\$ 19,202
Earnings per share:			
Basic	\$ 1.49	\$ 1.17	\$ 0.39
Diluted	\$ 1.47	\$ 1.15	\$ 0.39
Weighted average shares outstanding:			
Basic	48,158	49,469	48,649
Diluted	48,987	50,161	49,049
Cash dividends declared per common share			
	\$ 0.55	\$ 0.52	\$ 0.52

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

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

	December 31,	
	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 17,487	\$ 9,721
Receivables, net	110,555	101,543
Product inventories, net	386,924	347,439
Prepaid expenses and other current assets	11,298	7,678
Deferred income taxes	11,737	10,211
Total current assets	538,001	476,592
Property and equipment, net	41,394	30,685
Goodwill	177,103	178,516
Other intangible assets, net	11,738	12,965
Equity interest investments	980	966
Other assets, net	29,406	28,821
Total assets	\$ 798,622	\$ 728,545
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 177,437	\$ 169,700
Accrued expenses and other current liabilities	53,398	41,704
Current portion of long-term debt and other long-term liabilities	22	134
Total current liabilities	230,857	211,538
Deferred income taxes	32,993	25,593
Long-term debt	247,300	198,700
Other long-term liabilities	7,726	7,532
Total liabilities	518,876	443,363
Stockholders' equity:		
Common stock, \$.001 par value; 100,000,000 shares authorized; 47,366,997 shares issued and outstanding at December 31, 2011; and 49,381,678 shares issued and 49,278,578 outstanding at December 31, 2010	47	49
Additional paid-in capital	243,180	218,744
Retained earnings	34,299	67,681

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Treasury stock	—	(2,344)
Accumulated other comprehensive income	2,220	1,052
Total stockholders' equity	279,746	285,182
Total liabilities and stockholders' equity	\$ 798,622	\$ 728,545

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

POOL CORPORATION
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2011	2010	2009
Operating activities			
Net income	\$ 71,993	\$ 57,638	\$ 19,202
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	9,746	8,980	9,091
Amortization	1,559	2,348	2,454
Share-based compensation	8,233	7,790	6,429
Excess tax benefits from share-based compensation	(3,118)	(1,877)	(2,408)
Provision for doubtful accounts receivable, net of write-offs	(1,202)	(4,324)	(2,762)
Provision for inventory obsolescence, net	(11)	(721)	(24)
Change in deferred income taxes	2,605	1,795	(560)
Loss on sale of property and equipment	263	324	362
Equity (earnings) losses in unconsolidated investments	(209)	(105)	30,036
Losses (gains) on foreign currency transactions	592	(1,498)	(1,846)
Goodwill impairment	1,550	—	310
Other	195	145	115
Changes in operating assets and liabilities, net of effects of acquisitions:			
Receivables	(5,887)	4,832	25,441
Product inventories	(35,339)	15,951	56,676
Prepaid expenses and other assets	(2,951)	4,694	(6,178)
Accounts payable	6,402	(14,417)	(1,815)
Accrued expenses and other current liabilities	20,682	12,404	(21,273)
Net cash provided by operating activities	75,103	93,959	113,250
Investing activities			
Acquisition of businesses, net of cash acquired	(5,934)	(6,173)	(10,937)
Purchases of property and equipment, net of sale proceeds	(19,454)	(8,078)	(7,168)
Other investments	(190)	—	—
Net cash used in investing activities	(25,578)	(14,251)	(18,105)
Financing activities			
Proceeds from revolving line of credit	749,349	453,039	446,937
Payments on revolving line of credit	(700,749)	(457,568)	(499,237)

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Proceeds from asset-backed financing	—	—	57,000
Payments on asset-backed financing	—	—	(77,792)
Payments on long-term debt and other long-term liabilities	(149)	(48,225)	(6,157)
Payments of deferred acquisition consideration	(500)	(1,000)	—
Payments of deferred financing costs	(1,674)	(145)	(305)
Excess tax benefits from share-based compensation	3,118	1,877	2,408
Proceeds from stock issued under share-based compensation plans	13,085	6,293	4,283
Payments of cash dividends	(26,470)	(25,746)	(25,310)
Purchases of treasury stock	(76,564)	(13,683)	(1,171)
Net cash used in financing activities	(40,554)	(85,158)	(99,344)
Effect of exchange rate changes on cash and cash equivalents	(1,205)	(672)	4,280
Change in cash and cash equivalents	7,766	(6,122)	81
Cash and cash equivalents at beginning of year	9,721	15,843	15,762
Cash and cash equivalents at end of year	\$ 17,487	\$ 9,721	\$ 15,843

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

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

	Common Shares	Stock Amount	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2008	48,218	48	—	189,665	54,407	(2,386)	241,734
Net income	—	—	—	—	19,202	—	19,202
Foreign currency translation	—	—	—	—	—	2,434	2,434
Interest rate swaps, net of tax of \$1,299	—	—	—	—	—	2,178	2,178
Comprehensive income, net of tax							23,814
Treasury stock; 49 shares	—	—	(1,171)	—	—	—	(1,171)
Retirement of treasury shares	(49)	—	1,171	—	(1,171)	—	—
Share-based compensation	—	—	—	6,429	—	—	6,429
Exercise and lapse of share-based awards, including tax benefit of \$2,408	558	1	—	5,846	—	—	5,847
Declaration of cash dividends	—	—	—	—	(25,310)	—	(25,310)
Issuance of restricted stock, net	206	—	—	—	—	—	—
Employee stock purchase plan	58	—	—	844	—	—	844
Balance at December 31, 2009	48,991	49	—	202,784	47,128	2,226	252,187
Net income	—	—	—	—	57,638	—	57,638
Foreign currency translation	—	—	—	—	—	(2,170)	(2,170)
Interest rate swaps, net of tax of \$645	—	—	—	—	—	996	996
Comprehensive income, net of tax							56,464
Treasury stock	(638)	—	(13,683)	—	—	—	(13,683)
Retirement of treasury shares; 535 shares	—	—	11,339	—	(11,339)	—	—
Share-based compensation	—	—	—	7,790	—	—	7,790
	651	—	—	7,287	—	—	7,287

Exercise and lapse of share-based awards, including tax benefit of \$1,877							
Declaration of cash dividends	—	—	—	—	(25,746)	—	(25,746)
Issuance of restricted stock, net	220	—	—	—	—	—	—
Employee stock purchase plan	54	—	—	883	—	—	883
Balance at December 31, 2010	49,278						