POOL CORP
Form 10-Q
October 31, 2007

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

FORM 10-Q

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

For the quarterly period ended September 30, 2007

or

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

For the transition period from ____________ to ____________

Commission File Number: 0-26640

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

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

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

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

At October 26 2007, there were 47,504,934 outstanding shares of the registrant's common stock, $.001 par value per share.

POOL CORPORATION
Form 10-Q
For the Quarter Ended September 30, 2007

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Consolidated Statements of Income	1
Consolidated Balance Sheets	2
Condensed Consolidated Statements of Cash Flows	3
Notes to Consolidated Financial Statements	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	7
Item 3. Quantitative and Qualitative Disclosures about Market Risk	18
Item 4. Controls and Procedures	18

PART II. OTHER INFORMATION

Item 1A. Risk Factors	19
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	23
Item 6. Exhibits	23
Signature Page	24
Index to Exhibits	25

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Net sales	**$ 527,434**	$ 537,017	**$ 1,627,612**	$ 1,591,276
Cost of sales	**387,631**	387,022	**1,176,402**	1,134,233
Gross profit	**139,803**	149,995	**451,210**	457,043
Selling and administrative expenses	**100,298**	96,903	**304,640**	285,591
Operating income	**39,505**	53,092	**146,570**	171,452
Interest expense, net	**6,349**	4,276	**16,765**	10,983
Income before income taxes and equity earnings	**33,156**	48,816	**129,805**	160,469
Provision for income taxes	**12,802**	18,848	**50,118**	61,957
Equity earnings in unconsolidated investments	**1,481**	1,525	**1,296**	1,513
Net income	**$ 21,835**	$ 31,493	**$ 80,983**	$ 100,025
Earnings per share:				
Basic	**$ 0.45**	$ 0.61	**$ 1.64**	$ 1.91
Diluted	**$ 0.43**	$ 0.58	**$ 1.58**	$ 1.82
Weighted average shares outstanding:				
Basic	**48,623**	51,532	**49,372**	52,243
Diluted	**50,490**	54,277	**51,347**	55,092
Cash dividends declared per common share	**$ 0.120**	$ 0.105	**$ 0.345**	$ 0.300

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

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

	September 30, 2007	September 30, 2006	December 31, 2006
Assets			
Current assets:			
Cash and cash equivalents	**$ 50,265**	$ 40,874	$ 16,734
Receivables, net	**58,023**	64,540	51,116
Receivables pledged under receivables facility	**142,511**	147,049	103,821
Product inventories, net	**317,110**	283,930	332,069
Prepaid expenses and other current assets	**9,004**	7,785	8,005
Deferred income taxes	**7,652**	4,024	7,676
Total current assets	**$ 584,565**	$ 548,202	$ 519,421
Property and equipment, net	**35,518**	32,201	33,633
Goodwill	**155,247**	156,123	154,244
Other intangible assets, net	**15,459**	19,964	18,726
Equity interest investments	**34,561**	32,383	32,509
Other assets, net	**19,073**	13,862	16,029
Total assets	**$ 844,423**	$ 802,735	$ 774,562
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	**127,889**	111,349	177,544
Accrued and other current liabilities	**53,557**	118,892	35,610
Short-term financing	**110,715**	110,974	74,286
Current portion of long-term debt and other long-term liabilities	**3,350**	3,731	4,350
Total current liabilities	**$ 295,511**	$ 344,946	$ 291,790
Deferred income taxes	**15,185**	12,760	15,023
Long-term debt	**292,750**	144,750	188,157
Other long-term liabilities	**6,152**	1,625	1,908
Total liabilities	**$ 609,598**	$ 504,081	$ 496,878
Stockholders' equity:			
Common stock, $.001 par value; 100,000,000 shares authorized; 47,928,454; 50,911,356 and 50,929,665 shares issued and outstanding at September 30, 2007, September 30, 2006 and			

December 31, 2006, respectively	**48**	51	50
Additional paid-in capital	**169,886**	142,242	148,821
Retained earnings	**64,344**	164,744	129,932
Treasury stock	**(7,110)**	(14,177)	(7,334)
Accumulated other comprehensive income	**7,657**	5,794	6,215
Total stockholders' equity	**$ 234,825**	$ 298,654	$ 277,684
Total liabilities and stockholders' equity	**$ 844,423**	$ 802,735	$ 774,562

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

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

	Nine Months Ended September 30,	
	2007	**2006**
Operating activities		
Net income	**$ 80,983**	$ 100,025
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**6,868**	5,980
Amortization	**3,665**	3,472
Share-based compensation	**5,564**	5,517
Excess tax benefits from share-based compensation	**(8,345)**	(10,619)
Equity earnings in unconsolidated investments	**(2,087)**	(2,476)
Other	**3,441**	1,645
Changes in operating assets and liabilities, net of effects of acquisitions:		
Receivables	**(49,373)**	(61,121)
Product inventories	**14,580**	53,889
Accounts payable	**(49,743)**	(71,359)
Other current assets and liabilities	**27,927**	56,525
Net cash provided by operating activities	**33,480**	81,478
Investing activities		
Acquisition of businesses, net of cash acquired	**(2,087)**	(26,662)
Purchase of property and equipment, net of sale proceeds	**(9,407)**	(11,146)
Dividend on equity investment	**35**	—
Proceeds from sale of investment	**75**	—
Net cash used in investing activities	**(11,384)**	(37,808)
Financing activities		
Proceeds from revolving line of credit	**306,771**	311,838
Payments on revolving line of credit	**(299,928)**	(293,938)
Proceeds from asset-backed financing	**87,479**	93,347
Payments on asset-backed financing	**(51,050)**	(48,030)
Proceeds from long-term debt	**100,000**	—
Payments on long-term debt and other long-term liabilities	**(3,320)**	(1,497)
Payments of deferred financing costs	**(397)**	(128)
Payments of capital lease obligations	**(257)**	(257)
	8,345	10,619

Excess tax benefits from share-based compensation		
Proceeds from issuance of common stock under share-based compensation plans	**7,154**	6,335
Payment of cash dividends	**(17,033)**	(15,734)
Purchase of treasury stock	**(128,777)**	(93,495)
Net cash provided by (used in) financing activities	**8,987**	(30,940)
Effect of exchange rate changes on cash	**2,448**	1,278
Change in cash and cash equivalents	**33,531**	14,008
Cash and cash equivalents at beginning of period	**16,734**	26,866
Cash and cash equivalents at end of period	**$ 50,265**	$ 40,874

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

POOL CORPORATION

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 – Summary of Significant Accounting Policies

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

A description of our significant accounting policies is included in our 2006 Annual Report on Form 10-K. The Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and accompanying notes in our Annual Report. The results for the three and nine month periods ended September 30, 2007 are not necessarily indicative of the results to be expected for the twelve months ending December 31, 2007.

On January 1, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation 48 (FIN 48), *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109*. See Note 6 for additional information.

Note 2 – Earnings Per Share

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

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2007	**2006**	**2007**	**2006**
Net income	**$ 21,835**	$ 31,493	**$ 80,983**	$ 100,025
Weighted average common shares outstanding:				
Basic	**48,623**	51,532	**49,372**	52,243
Effect of dilutive securities:				
Stock options	**1,815**	2,715	**1,922**	2,812
Restricted stock awards	**50**	29	**51**	30
Employee stock purchase plan	**2**	1	**2**	7
Diluted	**50,490**	54,277	**51,347**	55,092
Basic earnings per share	**$ 0.45**	$ 0.61	**$ 1.64**	**$** 1.91

Diluted earnings per share	**$ 0.43**	$ 0.58	**$ 1.58**	$ 1.82

4

POOL CORPORATION

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

The weighted average diluted shares outstanding for the three and nine months ended September 30, 2007 exclude stock options to purchase 1,089,125 shares and 1,085,975 shares, respectively. Since these options have exercise prices that are higher than the average market price of our common stock, including them in the calculation would have an anti-dilutive effect on earnings per share for the respective periods. There were no anti-dilutive stock options excluded from the earnings per share calculation for the three and nine months ended September 30, 2006.

Note 3 – Comprehensive Income

Comprehensive income includes net income, foreign currency translation adjustments and the unrealized gain or loss on interest rate swaps. Comprehensive income for the three and nine months ended September 30, 2007 and 2006 is presented below:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2007	**2006**	**2007**	**2006**
Comprehensive income	**$ 21,801**	$ 33,610	**$ 82,425**	$103,680

Note 4 – Acquisitions

As discussed in Note 2 of "Notes to Consolidated Financial Statements" included in Item 8 of our 2006 Annual Report on Form 10-K, in August 2006 we acquired Wickham Supply, Inc. and Water Zone, LP (collectively Wickham), a leading regional irrigation products distributor. Wickham operates 14 distribution sales centers with 13 locations throughout Texas and one location in Georgia. We have included the results of operations for Wickham in our Consolidated Financial Statements since the acquisition date.

In February 2007, we acquired Tor-Lyn Limited, a swimming pool supply distributor with one sales center location in Ontario, Canada. We have included the results of operations for Tor-Lyn Limited in our Consolidated Financial Statements since the acquisition date. This acquisition did not have a material impact on our financial position or results of operations.

Note 5 – Debt

On February 12, 2007, we issued and sold $100.0 million aggregate principal amount of Floating Rate Senior Notes (the Notes) in a private placement offering pursuant to a Note Purchase Agreement. The Notes are due February 12, 2012 and will accrue interest on the unpaid principal balance at a floating rate equal to a spread of 0.600% over the three-month LIBOR, as adjusted from time to time. The Notes have scheduled quarterly interest payments that are due on February 12, May 12, August 12 and November 12 of each year. The Notes are unsecured and are guaranteed by each domestic subsidiary that is or becomes a borrower or guarantor under our unsecured syndicated senior credit facility. We used the net proceeds from the placement to pay down borrowings under our revolving credit facility.

The Notes are subject to redemption at our option, in whole or in part, at 103% of the principal amount on or prior to February 12, 2008 and at 100% of the principal amount thereafter, plus accrued interest to the date of redemption and any LIBOR breakage amount as defined by the Note Purchase Agreement. In the event we have a change of control,

the holders of the Notes will have the right to put the Notes back to us at par.

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

In February 2007, we also entered into an interest rate swap agreement to reduce our exposure to fluctuations in interest rates on the Notes. The swap agreement converts the variable interest rate to a fixed rate of 5.088% on the initial notional amount of $100.0 million, which will decrease to a notional amount of $50.0 million in 2010. Any difference paid or received on the interest rate swap will be recognized as an adjustment to interest expense over the life of the swap. We record the changes in the fair value of the swap to accumulated other comprehensive income. We have designated this swap as a cash flow hedge. The swap agreement will terminate on February 12, 2012. Including the 0.600% spread, we expect to pay an effective interest rate on the Notes of approximately 5.688%.

Note 6 – Income Taxes

As discussed in Note 1, we adopted FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, we recognized a reduction of approximately $0.5 million to the January 1, 2007 retained earnings balance. At January 1, 2007, the total amount of gross unrecognized tax benefits was approximately $3.3 million. This amount includes approximately $2.2 million of unrecognized tax benefits, which would decrease our effective tax rate if recognized at some point in the future.

Effective January 1, 2007, in connection with the adoption of FIN 48, we changed our accounting policy and now recognize accrued interest related to unrecognized tax benefits in interest expense and recognize penalties in selling and administrative expenses. These amounts were previously classified as a component of income tax expense. The accrued interest balance related to unrecognized tax benefits was approximately $0.4 million at January 1, 2007.

During the quarter ended September 30, 2007, we recognized a decrease of approximately $0.6 million in our gross unrecognized tax benefits as a result of a lapse of the applicable statute of limitations. We also recognized a decrease of approximately $0.3 million in interest related to the unrecognized tax benefits. The accrued interest balance related to unrecognized tax benefits was approximately $0.4 million at September 30, 2007.

We file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2004. We anticipate that the accounting under the provisions of FIN 48 may provide for greater volatility in our effective tax rate as items are derecognized or as we record changes in measurement in interim periods.

Note 7 – Share-Based Compensation Plans

In May 2007, our shareholders approved the 2007 Long-Term Incentive Plan (the 2007 LTIP), which authorizes the Compensation Committee of our Board of Directors (our Board) to grant non-qualified stock options and restricted stock to employees, directors, consultants or advisors. No more than 1,515,000 shares may be issued under this plan. Granted stock options have an exercise price equal to our stock’s closing market price on the date of grant. These options generally vest either five years from the grant date or on a three/five year split vest schedule, where half of the options vest three years from the grant date and the remainder vest five years from the grant date. These options expire ten years from the grant date. Restricted stock awarded under the 2007 LTIP is issued at no cost to the grantee and is subject to vesting restrictions. The restricted stock awards generally vest either one year from the grant date for awards to directors or five years from the grant date for all other awards.

The 2007 LTIP replaced the 2002 Long-Term Incentive Plan, which the Board suspended, and the SCP Pool Corporation Non-Employee Directors Equity Incentive Plan, which expired in 2006. No additional awards will be granted under these predecessor plans.

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

You should read the following discussion in conjunction with Management's Discussion and Analysis included in our 2006 Annual Report on Form 10-K.

OVERVIEW

Financial Results

Net sales decreased 2% to $527.4 million in the third quarter of 2007 compared to $537.0 million in 2006. Our sales were negatively impacted by a difficult combination of external conditions, including the depressed housing and real estate markets and less than ideal weather conditions. Considering the magnitude of these unfavorable external trends, we believe our sales performance compares relatively well to the third quarter of 2006 and indicates our success in gaining market share during the quarter.

Base business sales decreased 3% during the third quarter of 2007. While the continued decline in new pool construction permits negatively impacted sales, we realized moderate sales growth for maintenance, repair and replacement products due to the non-discretionary nature of these products, growth in the installed base of swimming pools and the execution of sales, marketing and service programs that we offer to our customers. Complementary product sales, which are sold primarily in the new pool construction market, decreased 5% quarter over quarter compared to 35% growth for the same period in 2006.

Our gross profit as a percentage of net sales (gross margin) decreased 140 basis points to 26.5% in the third quarter of 2007 from the third quarter of 2006. This decrease reflects the impact of competitive pricing pressures resulting from the current market environment and pre-price increase inventory purchases we made in the second quarter of 2006, which benefited our third quarter 2006 gross margin.

Selling and administrative expenses (operating expenses) increased 4% in the third quarter of 2007 compared to the third quarter of 2006. This increase includes the impact from investments in new sales centers since the beginning of 2006, higher expenses related to sales center expansions and relocations since the second quarter of 2006 and an increase in bad debt expense. These higher expenses were partially offset by the impact from cost control initiatives.

Our operating income decreased 26% to $39.5 million in the third quarter of 2007 while operating income as a percentage of net sales (operating margin) decreased to 7.5% from 9.9% in the third quarter of 2006. Interest expense increased 48% for the third quarter of 2007 due to higher debt levels for borrowings to fund share repurchases and a higher average effective interest rate compared to the same period in 2006. Net income decreased 31% to $21.8 million compared to the third quarter of 2006 and included $1.5 million of net equity earnings from our investment in Latham Acquisition Corporation (LAC).

Financial Position and Liquidity

Total net receivables decreased 5% to $200.5 million at September 30, 2007 from $211.6 million at September 30, 2006 due to lower sales in 2007 and due to an increase in the allowance for doubtful accounts. Our allowance for doubtful accounts balance was $8.7 million at September 30, 2007, an increase of $4.2 million over September 30, 2006. We increased the allowance for doubtful accounts to reflect slower payments from customers in markets that have been adversely impacted by the decline in new pool and irrigation construction. Days sales outstanding (DSO) increased between periods to 36.1 days at September 30, 2007 compared to 34.5 days at September 30, 2006.

Our inventory levels increased 12% to $317.1 million as of September 30, 2007 compared to September 30, 2006. The increase reflects inventory for the 12 new sales centers opened since September 2006, an earlier start of seasonal purchasing compared to 2006, inventory related to the expansion of complementary product offerings and higher inventory levels attributed to the decline in sales. The quality of our inventory remains high as measured by the percentage of total inventory in our fastest-turning inventory classes, which increased to 71% at September 30, 2007 compared to 68% at September 30, 2006. Our inventory turns, as calculated on a trailing twelve month basis, have remained consistent at 3.9 times as of September 30, 2007 and September 30, 2006.

Total debt outstanding increased to $406.5 million at September 30, 2007 compared to $258.0 million at September 30, 2006. This increase is attributable to increased borrowings to fund share repurchases of approximately $141.9 million over the past 12 months. Our current ratio increased to 2.0 as of September 30, 2007 compared to 1.6 as of September 30, 2006.

Current Trends

Current economic trends include a slowdown in the domestic housing market, with lower housing turnover, a sharp drop in new home construction, home value deflation in some markets, increases in short-term interest rates and a tightening of credit in the sub-prime and less-than-prime lending markets. Some of the factors that mitigate the impact of these trends on our business include the following:

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

Despite these mitigating factors, these negative trends had a more pronounced impact during the second and third quarters of 2007 and have significantly impacted some of our key markets, including Florida, Arizona and parts of California. We believe these trends, along with the impact of unusually wet weather in Texas and Oklahoma and a delay in the start of pool construction in northern markets due to unfavorable weather conditions in the first quarter, have resulted in a 15% to 20% decrease in new pool construction in 2007 compared to 2006. A continuation or worsening of these trends may have an even greater impact on new pool construction that could negatively impact our current sales and earnings projections.

Outlook

In September, we updated our 2007 earnings per share guidance to $1.45 to $1.55 per diluted share to reflect our third quarter results and our more cautious outlook for the remainder of the year. We now anticipate roughly flat sales growth for the full year 2007. Despite the current market environment with some competitors being very aggressive on pricing, we expect that our fourth quarter 2007 gross margin will be marginally higher than the fourth quarter 2006 gross margin, which was adversely impacted by our 2006 year end vendor incentive adjustment.

Our business is subject to significant risks, including weather, competition, general economic conditions and other risks detailed in Part II - Item 1A. “Risk Factors” and our “Cautionary Statement for Purpose of the ‘Safe Harbor’ Provisions of the Private Securities Litigation Reform Act of 1995”.

RESULTS OF OPERATIONS

As of September 30, 2007, we conducted operations through 285 sales centers in North America and Europe.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Net sales	**100.0%**	100.0%	**100.0%**	100.0%
Cost of sales	**73.5**	72.1	**72.3**	71.3
Gross profit	**26.5**	27.9	**27.7**	28.7
Selling and administrative expenses	**19.0**	18.0	**18.7**	17.9
Operating income	**7.5**	9.9	**9.0**	10.8
Interest expense	**1.2**	0.8	**1.0**	0.7
Income before income taxes and equity earnings	**6.3%**	9.1%	**8.0%**	10.1%

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

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

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

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

Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006

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

(Unaudited)	Base Business		Acquired & New Market		Total	
(In thousands)	Three Months Ended September 30,		Three Months Ended September 30,		Three Months Ended September 30,	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Net sales	**$512,629**	$527,166	**$14,805**	$ 9,851	**$527,434**	$537,017
Gross profit	**135,864**	147,227	**3,939**	2,768	**139,803**	149,995
Gross margin	**26.5%**	27.9%	**26.6%**	28.1%	**26.5%**	27.9%
Selling and administrative	**96,575**	95,439	**3,723**	1,464	**100,298**	96,903

expenses						
Expenses as a % of net sales	**18.8%**	18.1%	**25.1%**	14.9%	**19.0%**	18.0%
Operating income	**39,289**	51,788	**216**	1,304	**39,505**	53,092
Operating margin	**7.7%**	9.8%	**1.5%**	13.2%	**7.5%**	9.9%

9

For purposes of comparing operating results for the three months ended September 30, 2007 to the three months ended September 30, 2006, 266 sales centers were included in the base business calculations (including 23 of the 27 new sales centers opened since the beginning of 2006) and 19 sales centers were excluded because they were acquired or opened in new markets within the last 15 months. The effect of sales center acquisitions in the table above reflects the operations of the following:

Acquired	**Acquisition Date**	**Sales Centers Acquired**	**Period Excluded [1]**
Wickham Supply, Inc. and Water Zone, LP	August 2006	14	July – September 2007 and August – September 2006
Tor-Lyn, Limited	February 2007	1	July – September 2007

[1] After 15 months of operations, we include acquired sales centers in the base business calculation including the comparative prior year period.

Net Sales

(in millions)	**Three Months Ended September 30, 2007**	**2006**	**Change**	
Net sales	**$ 527.4**	$ 537.0	$(9.6)	(2)%

The decrease in net sales is primarily due to the impact of the prolonged domestic housing market downturn and less than ideal weather conditions, particularly the continued wet weather in Texas during the first half of the quarter. The demand for new pool and irrigation construction products continued to lag due to the significant declines in new pool construction permits. This impact was more pronounced in some of our larger markets, including Florida, Arizona and parts of California. Net sales were also adversely impacted by the competitive pricing pressures experienced in the current market environment.

These decreases were partially offset by moderate sales growth for maintenance, repair and replacement products, which comprises the majority of our sales and includes chemicals and parts products. This sales growth is a result of our continued successful execution of our sales, marketing and service programs and the larger installed base of swimming pools.

Complementary products decreased 5% quarter over quarter compared to a 35% increase in the same period in 2006. Complementary product sales were adversely impacted by the decline in new pool construction, but benefited from our expansion of complementary product offerings and an increase in the number of sales centers that now offer complementary products.

Gross Profit

(in millions)	**Three Months Ended September 30, 2007**	**2006**	**Change**

Gross profit	**$ 139.8**	$ 150.0	$(10.2)	(7)%
Gross margin	**26.5 %**	27.9%		

Gross margin decreased 140 basis points between periods. Our third quarter 2007 gross margin is comparatively lower primarily due to competitive pricing trends, as other distributors sold off excess inventories, and unfavorable comparisons to the third quarter 2006 gross margin which benefited from our second quarter 2006 pre-price increase inventory purchases.

Operating Expenses

	Three Months Ended September 30,		
(in millions)	**2007**	**2006**	**Change**
Operating expenses	**$ 100.3**	$ 96.9	$ 3.4 4%
Operating expenses as a percentage of net sales	**19.0 %**	18.0%	

Compared to the third quarter of 2006, operating expenses grew 4% and increased 100 basis points as a percentage of net sales while base business operating expenses increased 1% for the third quarter of 2007 and were 70 basis points higher as a percentage of net sales quarter over quarter. These increases include incremental expenses for the 27 new sales centers that we have opened since the beginning of 2006, higher rent expenses related to our expansion or relocation of over 20 existing sales centers since the second quarter of 2006 and an increase in bad debt expense due to an increase in our allowance for doubtful accounts based on recent slowdowns in customer payments. These expenses were partially offset by the impact from cost control initiatives.

Interest Expense

Interest expense increased $2.1 million between periods due to a 44% increase in the average debt outstanding compared to the third quarter of 2006 and an increase in the weighted average effective interest rate to 6.1% in 2007 from 6.0% in 2006.

Income Taxes

The decrease in income taxes is due to the decrease in income before income taxes and equity earnings. Our effective income tax rate was 38.6% for the three months ended September 30, 2007 and September 30, 2006.

Net Income and Earnings Per Share

Net income decreased to $21.8 million in the third quarter of 2007 from $31.5 million in the third quarter of 2006. Net income included $1.5 million of net equity earnings from our investment in LAC in both the third quarter of 2007 and the third quarter of 2006. Diluted earnings per share decreased to $0.43 per share for the third quarter of 2007 from $0.58 per share for the third quarter of 2006. The decrease in the quarter includes the impact of approximately $0.02 per diluted share related to the incremental operating expenses for new sales centers opened since January 2006.

Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006

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

(Unaudited)	**Base Business**		**Acquired & New Market**		**Total**	
(In thousands)	**Nine Months Ended September 30,**		**Nine Months Ended September 30,**		**Nine Months Ended September 30,**	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Net sales	**$1,580,783**	$1,579,633	**$46,829**	$11,643	**$1,627,612**	$1,591,276
Gross profit	**437,950**	453,817	**13,260**	3,226	**451,210**	457,043
Gross margin	**27.7%**	28.7%	**28.3%**	27.7%	**27.7%**	28.7%
Selling and administrative expenses	**293,835**	283,257	**10,805**	2,334	**304,640**	285,591
Expenses as a % of net sales	**18.6%**	17.9%	**23.1%**	20.0%	**18.7%**	17.9%
Operating income	**144,115**	170,560	**2,455**	892	**146,570**	171,452
Operating margin	**9.1%**	10.8%	**5.2%**	7.7%	**9.0%**	10.8%

For purposes of comparing operating results for the nine months ended September 30, 2007 to the nine months ended September 30, 2006, 266 sales centers were included in the base business calculations (including 23 of the 27 new sales centers opened since the beginning of 2006) and 19 sales centers were excluded because they were acquired or opened in new markets within the last 15 months. The effect of sales center acquisitions in the table above reflects the operations of the following:

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

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

Net Sales

	Nine Months Ended September 30,		
	2007	**2006**	**Change**

(in millions)				
Net sales	**$ 1,627.6**	$ 1,591.3	$ 36.3	2%

The increase in net sales is a result of the Wickham acquisition and sales from new locations that we opened in new markets. Base business sales growth was flat, reflecting solid sales increases for maintenance, repair and replacement products offset by sales decreases for products used in new pool and irrigation construction. New pool construction permits have declined significantly, especially in our key Florida, Arizona and California markets, due to the impact of the prolonged domestic housing market downturn and unfavorable weather conditions. Complementary product sales decreased 2% due to the decline in new pool construction activity.

12

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

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

Gross Profit

(in millions)	Nine Months Ended September 30, 2007	2006	Change	
Gross profit	**$ 451.2**	$ 457.0	$ (5.8)	(1)%
Gross margin	**27.7 %**	28.7%		

Gross margin decreased 100 basis points between periods, including a consistent decline in base business gross margin. Our 2007 gross margin is comparatively lower primarily due to the following impacts:

- competitive pricing pressures experienced in 2007 due to the current market environment;
- early buy inventory purchases and discounts for early payments on those purchases in the fourth quarter of 2005, which benefited our 2006 gross margin; and
- pre-price increase inventory purchases in the second quarter of 2006, which benefited our third quarter 2006 gross margin.

Operating Expenses

(in millions)	Nine Months Ended September 30, 2007	2006	Change	
Operating expenses	**$ 304.6**	$ 285.6	$ 19.0	7%
Operating expenses as a percentage of net sales	**18.7 %**	17.9%		

Compared to the first nine months of 2006, operating expenses grew 7% and increased 80 basis points as a percentage of net sales. Base business operating expenses were 4% higher in the first nine months of 2007 compared to the same period in 2006 and increased 70 basis points as a percentage of sales. These increases include incremental expenses for the 27 new sales centers that we have opened since the beginning of 2006, higher rent expenses related to our expansion or relocation of sales centers, additional expenses for our investments in resources related to other growth initiatives and an increase in bad debt expense due to increases in our allowance for doubtful accounts in the second and third quarters of 2007. These increased costs were partially offset by lower incentive expenses in the first nine months of 2007 compared to 2006 and cost control initiatives.

We opened 10 new sales centers in the first nine months of 2007 compared to 15 sales centers in the first nine months of 2006.

Interest Expense

Interest expense increased $5.8 million between periods as average debt outstanding was 43% higher in the first nine months of 2007 compared to the first nine months of 2006 and the weighted average effective interest rate increased to 6.0% in 2007 from 5.7% in 2006.

Income Taxes

The decrease in income taxes is due to the decrease in income before income taxes and equity earnings. Our effective income tax rate was 38.6% for the nine months ended September 30, 2007 and September 30, 2006.

Net Income and Earnings Per Share

Net income decreased to $81.0 million in the first nine months of 2007 from $100.0 million in the first nine months of 2006. Our equity interest in LAC produced $1.3 million of net earnings in the first nine months of 2007 compared to $1.5 million in the comparable 2006 period. For the year, we expect a positive contribution to our earnings from LAC. Earnings per share for the first nine months of 2007 decreased to $1.58 per diluted share compared to $1.82 in the first nine months of 2006. The decrease includes the impact of approximately $0.09 per diluted share related to the incremental operating expenses for new sales centers opened since January 2006. By comparison, the impact of incremental operating expenses for new sales centers opened since January 2006 on results for the nine months ended September 30, 2006 was approximately $0.04 per diluted share.

Seasonality and Quarterly Fluctuations

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

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

The following table presents certain unaudited quarterly data for the first, second and third quarters of 2007, the four quarters of 2006 and the fourth quarter of 2005. We have included income statement and balance sheet data for the most recent eight quarters to allow for a meaningful comparison of the seasonal fluctuations in these amounts. In our opinion, this information reflects all normal and recurring adjustments considered necessary for a fair presentation of this data. Due to the seasonal nature of our industry, the results of any one or more quarters are not necessarily an accurate indication of results for an entire fiscal year or of continuing trends.

(Unaudited) (in thousands)	QUARTER							
	2007			**2006**				**2005 (1)**
	Third	**Second**	**First**	**Fourth**	**Third**	**Second**	**First**	**Fourth**
Statement of Income Data								
Net sales	**$527,434**	$726,472	$373,706	$318,486	$537,017	$705,703	$348,556	$299,791
Gross profit	**139,803**	207,922	103,485	82,905	149,995	209,000	98,048	83,211
Operating income (loss)	**39,505**	98,433	8,632	(4,070)	53,092	103,338	15,022	2,288
Net income (loss)	**21,835**	57,794	1,354	(5,001)	31,493	62,110	6,422	(876)
Balance Sheet Data								
Total receivables, net	**$200,534**	$301,265	$231,034	$154,937	$211,589	$295,722	$211,578	$141,785

Product inventories, net	**317,110**	388,364	413,161	332,069	283,930	367,096	406,310	330,575
Accounts payable	**127,889**	229,691	325,448	177,544	111,349	207,727	267,296	174,170
Total debt	**406,465**	425,599	358,522	265,443	257,974	303,000	236,188	194,757

[1] As adjusted to reflect the impact of share-based compensation expense related to the adoption of SFAS 123(R) using the modified retrospective transition method. For additional information, see Note 7 of "Notes to Consolidated Financial Statements" included in Item 8 of our 2006 Annual Report on Form 10-K.

We expect that our quarterly results of operations will continue to fluctuate depending on the timing and amount of revenue contributed by new and acquired sales centers. We attempt to open new sales centers at the end of the fourth quarter or the first quarter of the subsequent year to take advantage of preseason sales programs and the following peak selling season.

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

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

Overall, weather conditions during the third quarter of 2007 were less than ideal and unfavorable compared to the same period in 2006. In July, below average temperatures across most of the east coast and continued cooler and unusually wet weather conditions in Texas had a significant impact on sales related to pool and landscape construction. While weather conditions were more favorable in August and September, especially in Texas, above average rainfall in California coupled with cooler temperatures across the west coast adversely impacted sales in the later part of the quarter.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

Sources and Uses of Cash

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

	Nine Months Ended September 30,	
	2007	**2006**
Operating activities	**$ 33,480**	$ 81,478
Investing activities	**(11,384)**	(37,808)
Financing activities	**8,987**	(30,940)

Cash flow provided by operations decreased $48.0 million in the first nine months of 2007 compared to the same period in 2006. This decrease is primarily due to the reduction in net income and the difference in the timing of the payment of our 2007 estimated income taxes, which were paid in the third quarter of 2007, and our 2006 estimated income taxes, which were deferred until the fourth quarter of 2006 as allowed by the Katrina Emergency Tax Relief Act of 2005

During the first nine months of 2007, the increase in cash provided by financing activities reflects higher borrowings used primarily to fund additional share repurchases. For the nine months ended September 30, 2007, our share repurchases totaled $126.8 million, or approximately 3.7 million shares of our common stock, at an average share price of $34.51.

Future Sources and Uses of Cash

In August 2007, our Board of Directors (our Board) increased the authorization for the repurchase of shares of our common stock in the open market to $100.0 million. Subsequent to quarter end, we repurchased approximately $10.9 million, or 434,752 shares of our common stock, leaving $55.0 million of the authorized amount remaining as of October 24, 2007. We intend to continue to repurchase shares on the open market from time to time, depending on market conditions. We may use cash flows from operations to fund these purchases or we may incur additional debt.

On February 12, 2007, we issued and sold $100.0 million aggregate principal amount of Floating Rate Senior Notes (the Notes) due February 12, 2012, as described in Note 5 of “Notes to Consolidated Financial Statements,” included in Item 1 of this Form 10-Q.

The Note Purchase Agreement includes customary affirmative and negative covenants for transactions of this type, including financial covenants, and customary events of default, which, if they were to occur would give the holders of

the Notes the right to accelerate the Notes.

Our unsecured syndicated senior credit facility (the Credit Facility), which matures on December 20, 2010, provides for $220.0 million in borrowing capacity including a $160.0 million five-year revolving credit facility (the Revolver) and a $60.0 million term loan (the Term Loan). The Credit Facility includes sublimits for the issuance of swingline loans and standby letters of credit.

At September 30, 2007, there was $138.5 million outstanding and $21.5 million available for borrowing under the Revolver. The weighted average effective interest rate on the Revolver was approximately 6.4% for the nine months ended September 30, 2007.

At September 30, 2007, there was $57.8 million outstanding under the Term Loan, of which $3.0 million is classified as current. The weighted average effective interest rate of the Term Loan was approximately 5.6% for the nine months ended September 30, 2007.

Our obligations under the Credit Facility are guaranteed by certain of our existing and future domestic subsidiaries. The Credit Facility contains terms and provisions (including representations, covenants and conditions) and events of default customary for transactions of this type. If an event of default occurs and is continuing under the Credit Facility, the lenders may terminate their obligations thereunder and may require us to repay all amounts thereunder. For additional information regarding the Credit Facility, see Note 5 of "Notes to Consolidated Financial Statements," included in our 2006 Annual Report on Form 10-K.

In December 2005, we entered into an interest rate swap agreement to reduce our exposure to fluctuations in interest rates on the Term Loan. The swap agreement converts our variable rate interest on the Term Loan to a fixed rate until its termination on December 31, 2008.

In February 2007, in conjunction with the private placement, we entered into another interest rate swap agreement to reduce our exposure to fluctuations in interest rates on the Notes. The swap agreement converts the variable interest rate to a fixed rate of 5.088% on the initial notional amount of $100.0 million, which will decrease to a notional amount of $50.0 million in 2010. This swap agreement will terminate on February 12, 2012. Including the 0.600% spread, we expect to pay an effective interest rate on the Notes of approximately 5.688%.

In March 2007, we renewed our accounts receivable securitization facility (the Receivables Facility), which provides a seasonal borrowing capacity of up to $150.0 million, through March 2008. The Receivables Facility provides for the true sale of certain of our receivables, as they are created, to a wholly owned, bankruptcy-remote subsidiary. This subsidiary grants an undivided security interest in the receivables to an unrelated commercial paper conduit. Because of the structure of the bankruptcy-remote subsidiary and our ability to control its activities, we include the transferred receivables and related debt in our Consolidated Balance Sheet. We continue to employ this arrangement because it provides us with a lower cost form of financing. At September 30, 2007, there was $110.7 million outstanding under the Receivables Facility at a weighted average effective interest rate of 5.9%.

As of September 30, 2007, we were in compliance with all covenants and financial ratio requirements related to our Notes, Credit Facility and our Receivables Facility.

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

CRITICAL ACCOUNTING ESTIMATES

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

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

Management has discussed the development, selection and disclosure of our critical accounting estimates with the Audit Committee of our Board of Directors. For a description of our critical accounting estimates that require us to make the most difficult, subjective or complex judgments, please see our Annual Report on Form 10-K for the year ended December 31, 2006. We have not changed these policies from those previously disclosed.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

There have been no material changes from what we reported in our Form 10-K for the year ended December 31, 2006.

Foreign Exchange Risk

There have been no material changes from what we reported in our Form 10-K for the year ended December 31, 2006.

Item 4. Controls and Procedures

The term “disclosure controls and procedures” is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Act). The rules refer to the controls and other procedures designed to ensure that information required to be disclosed in reports that we file or submit under the Act is recorded, processed, summarized and reported within the time periods specified. As of September 30, 2007, management, including the CEO and CFO, performed an evaluation of the effectiveness of our disclosure controls and procedures. Based on that evaluation, management, including the CEO and CFO, concluded that as of September 30, 2007, our disclosure controls and procedures were effective.

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

PART II. OTHER INFORMATION

Item 1A. Risk Factors

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

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

Risk Factors

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

We are susceptible to adverse weather conditions.

Weather is the principal external factor affecting our business. For example, unseasonably late warming trends in the spring or early cooling trends in the fall can decrease the length of the pool season. Also, unseasonably cool weather or extraordinary rainfall during the peak season can decrease swimming pool use, installation and maintenance, as well as landscape installations and maintenance. These weather conditions adversely affect sales of our products. For a discussion regarding seasonality and weather, see Part I – Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Seasonality and Quarterly Fluctuations."

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

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

Our largest suppliers are Pentair Corporation, Hayward Pool Products, Inc. and Waterpik Technologies, Inc., which accounted for approximately 16%, 11% and 6%, respectively, of the costs of products we sold in 2006. A decision by several suppliers, acting in concert, to sell their products directly to retail customers and other end-users of their products, bypassing distribution companies like ours, would have an adverse effect on our business. Additionally, the loss of a single supplier could also adversely affect our business. We dedicate significant resources to promote the benefits and affordability of pool ownership, which we believe greatly benefits our swimming pool customers and

suppliers.

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

We face competition from both inside and outside of our industry. Within our industry, we compete against various regional and local distributors and, to a lesser extent, mass market retailers and large pool or landscape supply retailers. Outside of our industry, we compete with sellers of other leisure product alternatives, such as boats and motor homes, and with other companies who rely on discretionary homeowner expenditures, such as home remodelers. New competitors may emerge as there are low barriers to entry in our industry. Some geographic markets that we serve, particularly our largest, higher density markets in California, Florida, Texas and Arizona, representing approximately 56% of our net sales in 2006, also tend to be more competitive than others.

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

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

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

In economic downturns, the demand for swimming pool or leisure related products may decline as discretionary consumer spending, the increase in pool eligible households and swimming pool construction decline. Although maintenance products and repair and replacement equipment that must be purchased by pool owners to maintain existing swimming pools account for more than 60% of our gross profits, the growth of our business depends on the expansion of the installed pool base, which may be viewed by most consumers as a discretionary expenditure that could be adversely affected by economic downturns. 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.

We depend on key personnel.

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

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

We may not be able to sustain our pace of growth.

We have experienced substantial sales growth in recent years through acquisitions and new sales center openings that have increased our size, scope and geographic distribution. Since 2002, we have opened 42 new sales centers and have completed 12 acquisitions. These acquisitions have added 73 sales centers, net of sales center closings and consolidations, and a centralized shipping location to our distribution networks. While we contemplate continued growth through acquisitions and internal expansion, no assurance can be made as to our ability to:

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

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

The growth of our business depends on effective marketing programs.

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

We also promote the growth of our customers' businesses through comprehensive support programs that offer promotional tools and marketing support to help generate increased sales for our customers. Our programs include such items as personalized websites, brochures, marketing campaigns and business development training. We also provide certain retail store customers with assistance in site selection, store layout and design and business management system implementation. Our inability to sufficiently develop effective advertising, marketing and promotional programs to succeed in a weakened economic environment and an increasingly competitive marketplace, in which we (and our entire supply chain) also compete with other luxury product alternatives, could have a material adverse effect on our business.

Our business is highly seasonal.

In 2006, approximately 65% of our net sales and 93% of our operating income were generated in the second and third quarters of the year, which represent the peak months of swimming pool use, installation, remodeling and repair. Our sales are substantially lower during the first and fourth quarters of the year, when we may incur net losses.

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

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

Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties or the imposition of injunctive relief. Moreover, compliance with such laws and regulations in the future could prove to be costly, and there can be no assurance that we will not incur such costs in material amounts. These laws and regulations have changed substantially and rapidly over the last 20 years, and we anticipate that there will be continuing changes. The clear trend in environmental, health, transportation and safety regulation is to place more restrictions and limitations on activities that impact the environment, such as the use and handling of chemical substances. Increasingly, strict restrictions and limitations have resulted in increased 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 and managing foreign subsidiary operations;
- uncertain political and regulatory conditions;
- foreign currency fluctuations;
- adverse tax consequences; and
- dependence on foreign economies.

We source certain products we sell, including our private label products, from Asia and other foreign locations. There is a significant risk that we may not be able to access products in a timely and efficient manner, and we may also be subject to certain trade restrictions that prevent us from obtaining products. Fluctuations in other factors relating to foreign trade, such as tariffs, currency exchange rates, transportation costs and inflation are beyond our control.

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

The terrorist attacks that took place on September 11, 2001, in the U.S. were unprecedented events that have created many economic and political uncertainties, some of which may materially impact our business. Discretionary spending on leisure products such as ours is generally adversely affected during times of economic uncertainty. The potential for future terrorist attacks, the national and international responses to terrorist attacks, and other acts of war or hostility have created many economic and political uncertainties, which could adversely affect our business for the short or long-term in ways that cannot presently be predicted.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below summarizes the repurchases of our common stock in the third quarter of 2007:

Period	Total number of shares purchased[1]	Average price paid per share	Total number of shares purchased as part of publicly announced plan[2]	Maximum approximate dollar value of shares that may yet be purchased under the plan
July 1-31, 2007	714,879	$ 35.04	714,693	$ 13,448
August 1-31, 2007	583,682	$ 34.21	539,500	$ 81,626,621
September 1-30, 2007	522,500	$ 30.16	522,500	$ 65,867,465
Total	1,821,061	$ 33.38	1,776,693	

(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 186 and 44,182 shares surrendered for this purpose in July and August of 2007, respectively. There were no shares tendered for this purpose in September of 2007.

(2) In July 2002, our Board authorized $50.0 million for the repurchase of shares of our common stock in the open market. In August 2004, November 2005 and August 2006, our Board increased the authorization for the repurchase of shares of our common stock in the open market to a total of $50.0 million from the amounts remaining at each of those dates. In November 2006 and August 2007, our Board increased the authorization for the repurchase of shares of our common stock in the open market to a total of $100.0 million from the amounts remaining at each of those dates. As of October 24, 2007, $55.0 million of the authorized amount remained available.

Item 6. Exhibits

Exhibits filed as part of this report are listed in the Index to Exhibits appearing on page 25.

Items 1, 3, 4 and 5 are not applicable and have been omitted.

Signature Page

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on October 30, 2007.

POOL CORPORATION

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

Index to Exhibits

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