

POOL CORP  
Form 10-K  
March 02, 2009

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

FORM 10-K

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

For the fiscal year ended December 31, 2008

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

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

Large accelerated filer   
filer

Accelerated

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, 2008 was \$819,774,338.

As of February 20, 2009, the Registrant had 48,281,726 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 27, 2009 for the Annual Meeting to be held on May 5, 2009, are incorporated by reference in Part III of this Form 10-K.

## POOL CORPORATION

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PART I.

Item 1. Business

General

Based on industry data, Pool Corporation (the Company, which may be referred to as POOL, we, us or our) is the world's largest wholesale distributor of swimming pool supplies, equipment and related leisure products. The Company was incorporated in the State of Delaware in 1993 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 and offering a range of services to our customer base on conditions that are more favorable than these customers could obtain on their own.

As of December 31, 2008 we operated 288 sales centers in North America and Europe.

Our Industry

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

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

The majority of consumer spending in our industry is derived from the non-discretionary maintenance of existing swimming pools, including the maintenance and repair of the equipment for those pools. We believe that the recurring nature of the maintenance and repair market has helped maintain a relatively consistent rate of industry growth historically, and has helped cushion the negative impact on revenues in periods when unfavorable economic conditions and softness in the housing market adversely impact pool construction activities. The table below reflects growth in the domestic installed base of in-ground and above-ground swimming pools over the past 10 years (based on Company estimates and information from 2007 P.K. Data, Inc. reports):

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

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

In 2008, the continuing adverse economic trends that carried over and intensified from 2007 negatively impacted our industry and our performance. These trends were more severe in some of the largest pool markets including California, Florida and Arizona. Specific issues included a slowdown in the domestic housing market, with lower housing turnover, a sharp drop in new home construction, home value deflation in many markets and a significant tightening of consumer and commercial credit. Our expectation is that these trends will continue in 2009, but over the long-term the industry will return to an annual growth rate of approximately 2% to 6% when the overall economy rebounds and the real estate and credit markets revert to normal.

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 above average precipitation, late spring thaws in northern markets and other extreme weather conditions delay, interrupt or cancel current or planned construction and installation activities.

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

### Business Strategy and Growth

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

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

We promote the growth of our customers' businesses through comprehensive support programs that offer promotional tools and marketing support to help generate increased sales for our customers. Our uniquely tailored programs

include such features as customer lead generation, personalized websites, brochures, marketing campaigns and business development training. As a customer service, we also provide certain retail store customers assistance with everything from site selection to store layout and design to business management system implementation. These benefits and other exclusive services are offered through our retail brand licensing program called The Backyard Place, which is one of our key growth initiatives. In return for these services, 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). Since we launched The Backyard Place program in 2006, we have signed agreements with more than 100 retail store customers and have realized over a 20% growth in our sales to these customers.

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. We have increased our product breadth (as described in the “Customers and Products” section below) and expanded our sales center networks through acquisitions (which have been an important source of sales growth), new sales center openings and expansions of existing sales centers. Since 2004, we have opened 31 new sales centers (net of subsequent closings and consolidations of new sales centers) and successfully completed 9 acquisitions consisting of 69 sales centers (net of sales center closings and consolidations within one year of acquisition). Given the current challenging external environment, we opened only one new sales center location in 2008 and do not expect to open any additional sales centers in 2009. However, we plan to take advantage of opportunities to further expand our domestic irrigation and international swimming pool distribution networks via acquisitions and new openings. We also plan to selectively expand our domestic swimming pool distribution networks and continue to grow our complementary product offerings.

Based upon industry data, we believe the industry grew at a 2% to 6% annual rate for the period between 2000 and 2005 but declined between 2006 and 2008. Historically, our sales growth has exceeded the industry’s growth rates and allowed us to increase market share. We expect our sales growth to be higher than the industry average due to increases in market share and expansion of our product offerings.

We estimate that pricing inflation has averaged 1-3% annually in our industry over the past 10 years. However, we anticipate mid to high single digit inflationary increases in product costs in 2009. We intend to pass these price increases through the supply chain and we expect a favorable impact to gross margin in 2009 based on our volume of inventory purchases ahead of vendor price increases in the second half of 2008.

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. We intend to pursue additional strategic acquisitions, which will allow us to further penetrate existing markets and expand into new geographic markets and product categories.

## Customers and Products

We serve roughly 70,000 customers, none of which account for more than 1% of our sales. We primarily serve five types of customers:

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

The majority of these customers are small, family owned businesses with relatively limited capital resources. The current 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 two years.

We conduct our operations through 288 sales centers in North America and Europe. Our primary markets, which have the highest concentration of swimming pools, are California, Florida, Texas and Arizona, representing approximately 55% of our net sales in 2008. We use a combination of local and international sales and marketing personnel to promote the growth of our business and develop and strengthen our customers’ businesses. Our sales and marketing personnel focus on developing customer programs and promotional activities, creating and enhancing sales management tools and providing product and market expertise. Our local sales personnel work from the sales centers



and are charged with understanding and meeting our customers' specific needs.

We offer our customers more than 100,000 national brand and Pool Corporation private label products. We believe that our selection of pool equipment, supplies, chemicals, replacement parts, irrigation and landscape products and complementary products is the most comprehensive in the industry. The products we sell can be categorized as follows:

- maintenance products such as chemicals, supplies and pool accessories;
- repair and replacement parts for cleaners, filters, heaters, pumps and lights;
- packaged pool kits including walls, liners, braces and coping for in-ground and above-ground pools;
- pool equipment and components for new pool construction and the remodeling of existing pools;
- irrigation and landscape products, including professional lawn care equipment; and
- complementary products, which consists of a number of product categories and includes:
  - building materials used for pool installations and remodeling, such as concrete, plumbing and electrical components and pool surface and decking materials; and
  - other discretionary recreational and related outdoor lifestyle products that enhance consumers' use and enjoyment of outdoor living spaces, such as pool toys and games, spas and grills.

We track and monitor the majority of our sales by various product lines and product categories, primarily for consideration in various incentive plan programs and to provide support for sales and marketing efforts. We currently have over 300 product lines and over 40 product categories. Based on our 2008 product classifications, sales for our pool and spa chemicals product category as a percentage of total net sales was 14% in 2008, 12% in 2007 and 11% in 2006. This growth has been due to both increases in our market share and a shift in product mix resulting from the decline in construction related products. No other product categories accounted for 10% or more of total net sales in any of the last three fiscal years.

Our maintenance, repair and replacement products are categorized into maintenance and minor repair (non-discretionary) and major repair and refurbishment (partially discretionary) product groupings. Since maintenance and repair products are primarily non-discretionary in nature, these items must be purchased by end users to maintain existing swimming pools and landscaped areas. In 2008, approximately 60% of our sales and gross profits were derived from the sale of maintenance and repair products used to maintain and repair these existing features and approximately 40% were derived from the replacement, construction and installation (equipment, materials, plumbing, electrical, etc.) of pools and landscaping. This reflects a shift toward more sales of maintenance and repair products due to the significant declines in new pool construction over the past three years. Historically, just over 50% of our total sales and gross profits were related to maintenance and repair products.

Including sales related to our March 2008 acquisition of National Pool Tile Group, Inc. (NPT), our complementary product sales accounted for approximately 11% of our total net sales in 2008 at comparable margins to our traditional product offerings. While complementary product sales excluding NPT decreased 15% in 2008 due primarily to the downturn in new pool and irrigation construction, complementary product sales have been an important factor in our base business sales growth and increased from approximately \$3.0 million in 1999 to over \$156.0 million in 2008. With our acquisition of NPT in March 2008, our focus in 2009 will be expanding the number of sales center locations that offer NPT's pool tile and composite pool finish products.

We continue to identify other product categories that could become part of our complementary product offerings in the future. We typically introduce two to three categories each year in certain markets. We then evaluate the performance of these test categories and focus on those which we believe exhibit long-term growth potential. We intend to continue to expand our complementary products initiative by increasing the number of locations which offer complementary products, increasing the number of complementary products offered at certain locations and continuing a modest broadening of the product offerings on a company-wide basis.

In 2009, we will change how we track complementary product sales. Some landscape products including power lawn equipment will now be tracked as complementary products, while other products previously captured as complementary that are part of the cost of building or remodeling a pool will now be tracked as pool product sales, including products such as plaster, cement, tile, coping, etc. As such, we will not report complementary product sales amounts in the future that are comparable with the amounts discussed above.

## Operating Strategy

We operate three distribution networks: the SCP Distributors (SCP) network, the Superior Pool Products (Superior) network and the Horizon network. The SCP network consists of 167 sales centers, including 12 sales centers in Europe, the Superior network consists of 60 sales centers and the Horizon network consists of 61 sales centers.

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

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

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

## Distribution

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

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

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

## Purchasing and Suppliers

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

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

We regularly evaluate supplier relationships and consider alternate sourcing to assure competitive cost, service and quality standards. Our largest suppliers include Pentair Corporation, Hayward Pool Products, Inc. and Zodiac Pool Systems, Inc., which accounted for approximately 15%, 10% and 9%, respectively, of the cost of products we sold in

2008.

### Competition

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

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

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

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

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

#### Seasonality and Weather

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

#### Environmental, Health and Safety Regulations

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

#### Employees

We employed approximately 3,400 people at December 31, 2008. Given the seasonal nature of our business, our peak employment period is the summer, when we add approximately 500 more employees to our work force to meet seasonal demand.

#### Intellectual Property

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

Geographic Areas

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

	Year Ended December 31,		
	2008	2007	2006
United States	\$1,626,869	\$1,774,771	\$1,779,085
International			