SCP POOL CORP
Form 10-Q
May 05, 2006

# 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 March 31, 2006**

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**

# SCP POOL CORPORATION

(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **36-3943363** |

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined 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 ¨ NO x

At April 24, 2006, there were 52,943,968 outstanding shares of the registrant s common stock, $.001 par value per share.

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**SCP POOL CORPORATION**
**Form 10-Q**
**For the Quarter Ended March 31, 2006**

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**PART I. FINANCIAL INFORMATION**

Item 1. Financial Statements (Unaudited)

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2006** | **2005** |
| | | **(As Adjusted - See Note 5)** |
| Net sales | **$ 348,556** | $ 265,161 |
| Cost of sales | **250,508** | 193,210 |
| Gross profit | **98,048** | 71,951 |
| Selling and administrative expenses | **83,026** | 61,695 |
| Operating income | **15,022** | 10,256 |
| Interest expense, net | **2,851** | 1,080 |

| | Three Months Ended | |
|---|---|---|
| Income before income taxes and equity losses | **12,171** | 9,176 |
| Provision for income taxes | **4,699** | 3,592 |
| Equity losses in unconsolidated investments | **(1,050)** | (1,482) |
| Net income | $ **6,422** | $ 4,102 |
| Earnings per share: | | |
| Basic | **$ 0.12** | $ 0.08 |
| Diluted | **$ 0.12** | $ 0.07 |
| Weighted average shares outstanding: | | |
| Basic | **52,593** | 52,273 |
| Diluted | **55,443** | 55,477 |
| Cash dividends declared per common share | **$ 0.09** | $ 0.07 |

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

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

| | March 31, 2006 | March 31, 2005 | December 31, 2005 |
|---|---|---|---|
| | | (As Adjusted - See Note 5) | (As Adjusted - See Note 5) |
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents | **$ 5,964** | $ 14,565 | $ 26,866 |
| Receivables, net | **42,988** | 33,646 | 42,809 |
| Receivables pledged under receivables facility | **168,590** | 130,861 | 98,976 |
| Product inventories, net | **406,310** | 281,267 | 330,575 |
| Prepaid expenses | **5,193** | 3,841 | 5,190 |
| Deferred income taxes | **3,970** | 2,570 | 7,977 |
| Total current assets | **633,015** | 466,750 | 512,393 |
| Property and equipment, net | **27,884** | 20,087 | 25,598 |
| Goodwill | **142,177** | 104,687 | 139,546 |
| Other intangible assets, net | **18,955** | 11,723 | 22,838 |

| | March 31, | March 31, | December 31, |
|---|---|---|---|
| Equity interest investments | **28,182** | 17,134 | 29,907 |
| Other assets, net | **15,413** | 10,570 | 15,098 |
| **Total assets** | **$ 865,626** | $ 630,951 | $ 745,380 |
| **Liabilities and stockholders' equity** | | | |
| Current liabilities: | | | |
| Accounts payable | **$ 267,296** | $ 219,290 | $ 174,170 |
| Accrued and other current liabilities | **51,827** | 23,038 | 76,645 |
| Short-term financing | **80,275** | 57,665 | 65,657 |
| Current portion of other long-term liabilities | **2,100** | 1,350 | 1,350 |
| Total current liabilities | **401,498** | 301,343 | 317,822 |
| Deferred income taxes | **12,786** | 11,624 | 14,600 |
| Long-term debt | **155,163** | 82,914 | 129,100 |
| Other long-term liabilities | **2,174** | 3,116 | 2,134 |
| Total liabilities | **571,621** | 398,997 | 463,656 |
| Stockholders' equity: | | | |
| Common stock, $.001 par value; 100,000,000 shares authorized; 52,880,856, 52,482,002 and 52,414,883 shares issued and outstanding at March 31, 2006, March 31, 2005 and December 31, 2005, respectively | **52** | 52 | 52 |
| Additional paid-in capital | **133,860** | 102,409 | 119,770 |
| Retained earnings | **157,370** | 126,716 | 160,684 |
| Treasury stock | **--** | (45) | (921) |
| Accumulated other comprehensive income | **2,723** | 2,822 | 2,139 |
| Total stockholders' equity | **294,005** | 231,954 | 281,724 |
| **Total liabilities and stockholders' equity** | **$ 865,626** | $ 630,951 | $ 745,380 |

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

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2006** | **2005** |

| | Three Months Ended | (As Adjusted - See Note 5) |
|---|---|---|
| **Operating activities** | | |
| Net income | **$ 6,422** | $ 4,102 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation | **1,860** | 1,216 |
| Amortization | **1,328** | 937 |
| Share-based compensation | **2,145** | 1,385 |
| Excess tax benefits from share-based compensation | **(8,236)** | (4,261) |
| Equity losses in unconsolidated investments | **1,725** | 1,482 |
| Other | **(1,578)** | (741) |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | |
| Receivables | **(69,638)** | (66,706) |
| Product inventories | **(76,348)** | (85,750) |
| Accounts payable | **93,145** | 106,176 |
| Other current assets and liabilities | **(11,484)** | (8,807) |
| Net cash used in operating activities | **(60,659)** | (50,967) |
| **Investing activities** | | |
| Acquisition of businesses, net of cash acquired | **(1,446)** | (2) |
| Purchase of property and equipment, net of sale proceeds | **(3,408)** | (2,772) |
| Net cash used in investing activities | **(4,854)** | (2,774) |
| **Financing activities** | | |
| Proceeds from revolving line of credit | **71,213** | 77,378 |
| Payments on revolving line of credit | **(44,400)** | (44,884) |
| Proceeds from asset-backed financing | **23,622** | 19,835 |
| Payments on asset-backed financing | **(9,004)** | (4,765) |
| Payments on other long-term debt | **(23)** | (23) |
| Payments of deferred financing costs | **(18)** | (11) |
| Payments of capital lease obligations | **(257)** | -- |
| Excess tax benefits from share-based compensation | **8,236** | 4,261 |
| Issuance of common stock under stock option plans | **3,709** | 1,495 |
| Payment of cash dividends | **(4,750)** | (3,672) |
| Purchase of treasury stock | **(4,071)** | (3,024) |
| Net cash provided by financing activities | **44,257** | 46,590 |
| Effect of exchange rate changes on cash | **354** | (46) |
| Change in cash and cash equivalents | **(20,902)** | (7,197) |
| Cash and cash equivalents at beginning of period | **26,866** | 21,762 |
| Cash and cash equivalents at end of period | **$ 5,964** | $ 14,565 |

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

**SCP POOL CORPORATION**
**Notes to Consolidated Financial Statements**
(Unaudited)

### Note 1 Summary of Significant Accounting Policies

SCP 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 or 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 2005 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 month period ended March 31, 2006 are not necessarily indicative of the results to be expected for the twelve months ending December 31, 2006.

On January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) 123(R), *Share-Based Payments*. We have selected a Black-Scholes-Merton option valuation model for estimating the grant date fair value of share-based payments under SFAS 123(R) and we have elected to use the modified-retrospective transition method. We have adjusted all prior period financial statements to reflect compensation cost for the amounts previously reported in our pro-forma footnote disclosures required by SFAS 123, as corrected for immaterial amounts of compensation cost associated with our employee stock purchase plan. Please see Note 5 for additional information.

### Reclassifications

We have reclassified the payment of deferred financing costs and the related non-cash amortization of these amounts in our 2005 Condensed Consolidated Statements of Cash Flows to conform to the 2006 presentation. The non-cash amortization was reclassed within the operating activities section to the amortization line item. Additionally, deferred financing costs have been reclassified as a use of cash from financing activities. Previously, we classified these amounts as a change in prepaid and other assets. These reclassifications had no effect on net income or earnings per share as previously reported.

### 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.



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

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 March 31,**

| | 2006 | 2005 |
|---|---|---|
| Net income | **$ 6,422** | $ 4,102 |
| Weighted average common shares outstanding: | | |
| Basic | **52,593** | 52,273 |
| Effect of dilutive securities: | | |
| Stock options | **2,818** | 3,183 |
| Restricted stock awards | **30** | 20 |
| Employee stock purchase plan | **2** | 1 |
| Diluted | **55,443** | 55,477 |
| Basic earnings per share | **$ 0.12** | $ 0.08 |
| Diluted earnings per share | **$ 0.12** | $ 0.07 |

**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 was $6.6 million and $4.1 million for the three months ended March 31, 2006 and March 31, 2005, respectively.

**Note 4 Acquisitions**

As discussed in Note 2 of our Annual Report on Form 10-K, in October 2005 we acquired Automatic Rain Company through our newly formed and wholly owned subsidiary Horizon Distributors, Inc. (Horizon). The purchase price for the issued and outstanding stock of Automatic Rain Company was approximately $87.1 million in cash, which included approximately $1.4 million in working capital adjustments that were recorded as of December 31, 2005, and paid in the first quarter of 2006.

During the first quarter of 2006, we made a purchase price allocation adjustment that lowered the estimated fair value of non-compete provisions within the employment contracts of certain members of Horizon s management team. This adjustment resulted in changes to the following acquisition related balances:

| (in thousands) | March 31, 2006 | December 31, 2005 |
|---|---|---|
| Goodwill | **$ 35,630** | $ 33,030 |
| Employment contracts | **1,000** | 3,600 |

We are amortizing the fair value of the employment contracts using the straight-line method over the three year estimated useful lives.

The purchase price allocations for our acquisition of Automatic Rain Company have been completed on a preliminary basis, subject to adjustment should new or additional facts about the business become known. We expect to finalize the allocations by the third quarter of 2006.

(Unaudited)

**Note 5 Share-Based Compensation**

As discussed in Note 1, we adopted SFAS 123(R) on January 1, 2006 using a Black-Scholes-Merton option valuation model and the modified retrospective transition method. Prior to January 1, 2006, we accounted for stock option awards under the intrinsic value method prescribed by APB 25, as permitted by SFAS 123, *Accounting for Stock-Based Compensation.* Accordingly, we did not record compensation expense for options issued with an exercise price equal to the stock s market price on the grant date. The impact of the adoption of SFAS 123(R) is summarized below.

We award stock options and restricted stock to our employees and non-employee directors under our stock option plans.

Under the 1995 Stock Option Plan (the 1995 Plan) our Board of Directors (the Board) was authorized to grant stock options to employees, agents, consultants or independent contractors. These options generally were exercisable two years after the grant date, and they expire ten years from the grant date. In May 1998, the Board suspended the 1995 Plan. Options granted prior to the suspension were not affected by this action.

In May 1998, our stockholders approved the 1998 Stock Option Plan (the 1998 Plan), which authorized the Board to grant stock options, stock appreciation rights, restricted stock and performance awards to employees, agents, consultants or independent contractors. These options generally were exercisable three or more years after the grant date, and they expire ten years after the grant date. In May 2002, the Board suspended the 1998 Plan. Options granted prior to the suspension were not affected by this action.

In May 2002, our stockholders approved the 2002 Long-Term Incentive Plan (the 2002 Plan), which authorized the Board to grant stock options and restricted stock awards to employees, agents, consultants or independent contractors. In May 2004, our stockholders approved an amendment to increase the number of shares authorized for issuance under the 2002 Plan from 1,575,000 to 2,700,000 shares. Granted options have an exercise price equal to our stock s market price on the grant date. 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.

The SCP Pool Corporation Non-Employee Directors Equity Incentive Plan permits the Board to grant stock options to each non-employee director. No more than 1,350,000 shares may be issued under this plan. The exercise price of the granted options is equal to our stock s market price on the grant date. The options generally may be exercised one year after the grant date, and they expire ten years after the grant date.

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

The following is a summary of the stock option activity under our stock option plans for the three months ended March 31, 2006:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Balance, December 31, 2005 | 6,796,687 | $ 10.46 | | |
| Granted (at market price) | 591,650 | 38.80 | | |
| Exercised | 556,181 | 5.16 | | |
| Forfeited | 8,126 | 20.79 | | |
| Balance, March 31, 2006 | 6,824,030 | $ 13.34 | 6.03 | $ 229,082,687 |

| | | | Weighted | | |
|---|---|---|---|---|---|
| Exercisable, March 31, 2006 | 4,224,774 | $ 6.96 | 4.26 | $ | 168,779,721 |

The following table summarizes the cash proceeds and tax benefits realized from the exercise of stock options:

| | Three Months Ended March 31, | |
|---|---|---|
| **(In thousands, except share data)** | **2006** | **2005** |
| Options exercised | **556,181** | 367,266 |
| Cash proceeds | **$ 2,872** | $ 731 |
| Intrinsic value of options exercised | **25,175** | 12,071 |
| Tax benefits realized | **8,611** | 4,423 |

We estimated the fair value of employee stock option awards at the grant date based on the assumptions summarized in the following table:

| | Three Months Ended March 31, | |
|---|---|---|
| **(Weighted average)** | **2006** | **2005** |
| Expected volatility | **29.4%** | 30.3% |
| Expected term | **6.0 years** | 7.0 years |
| Risk-free interest rate | **4.30%** | 4.22% |
| Expected dividend yield | **1.0%** | 1.0% |

We calculated expected volatility over the expected term of the awards based on our historical volatility using weekly price observations. We estimated the expected term based on the vesting period of the awards and our historical exercise activity for awards with similar characteristics. The risk-free interest rate is based on the U.S. Treasury zero-coupon issues with a remaining term approximating the expected term of the option. We determined the expected dividend yield based on the anticipated dividends over the expected term.

The weighted-average grant date fair value of options granted during the three months ended March 31, 2006 and March 31, 2005 was $13.21 and $11.34, respectively. For purposes of recognizing share-based compensation expense, the estimated fair value of employee stock options is ratably expensed over the options vesting period. We recognize compensation cost for awards with graded vesting using the graded vesting recognition method.

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

The following is a summary of the restricted stock awards activity under our stock option plans for the three months ended March 31 2006:

| | Shares | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value |
|---|---|---|---|
| Balance, December 31, 2005 | 52,400 | | |
| Granted (at market price) | -- | | |
| Vested | -- | | |
| Forfeited | -- | | |
| Balance, March 31, 2006 | 52,400 | 7.56 | $ 2,458,084 |

| | | Weighted | |
|---|---|---|---|
| Vested, March 31, 2006 | 2,500 | 8.36 | $ 117,275 |

The restricted stock awards generally vest five years from the grant date, and expire ten years from the grant date. At March 31, 2006, the unamortized compensation expense related to the restricted stock awards totaled $0.6 million, which will be recognized over a weighted average period of 2.7 years.

Prior to the adoption of SFAS 123(R), we recorded restricted stock awards as unearned compensation, a reduction of stockholders equity, based on the quoted fair market value of our common stock on the date of grant. We adjusted the common stock balances on the date of grant to reflect the issuance of the restricted stock awards. We recorded compensation expense ratably over the vesting period with an offsetting credit to the unearned compensation balance. Under the provisions of SFAS 123(R), restricted stock awards are not deemed to be issued until the end of the vesting period. As such, SFAS 123(R) requires that we eliminate the unearned compensation balance upon adoption and that we recognize compensation cost over the requisite service period with an offsetting credit to additional paid-in capital.



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

The impact of the adoption of SFAS 123(R) on our Consolidated Statements of Income and Consolidated Statements of Cash Flows is as follows (in thousands, except per share date):

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2006 | | | 2005 | | |
| | Without SFAS 123(R) | SFAS 123(R) Impact | As Reported | Without SFAS 123 | SFAS 123 Impact | As Adjusted |
| Income before income taxes and equity losses | $ 14,236 | $ (2,065) | $ 12,171 | $ 10,221 | $ (1,045) | $ 9,176 |
| Provision for income taxes | 5,496 | (797) | 4,699 | 3,986 | (394) | 3,592 |
| Net income | 7,690 | (1,268) | 6,422 | 4,753 | (651) | 4,102 |
| | | | | | | |
| Basic earnings per share | $ 0.15 | $ (0.03) | $ 0.12 | $ 0.09 | $ (0.01) | $ 0.08 |
| Diluted earnings per share | $ 0.14 | $ (0.02) | $ 0.12 | $ 0.09 | $ (0.02) | $ 0.07 |
| | | | | | | |
| Net cash used in operating activities | $ (61,034) | $ 375 | $ (60,659) | $ (51,128) | $ 161 | $ (50,967) |
| Net cash provided by financing activities | 44,632 | (375) | 44,257 | 46,751 | (161) | 46,590 |

The impact of the adoption of SFAS 123(R) on our Consolidated Balance Sheet at December 31, 2005 is as follows (in thousands):

| | Without SFAS 123 Impact | SFAS 123 Impact | As Adjusted |
|---|---|---|---|
| Deferred income taxes (included in Other assets, net) | $ 6,354 | $ 8,744 | $ 15,098 |
| Additional paid-in capital | 96,051 | 23,719 | 119,770 |
| Retained earnings | 176,362 | (15,678) | 160,684 |
| Unearned compensation | (703) | 703 | -- |

In March 1998, the Board adopted the SCP Pool Corporation Employee Stock Purchase Plan. Under this plan, employees who meet minimum age and length of service requirements may purchase stock at 85% of the lower of:

a. the closing price of our common stock at the end of a six month period ending either June 30 or December 31; or

b. the average of the beginning and ending closing prices of our common stock for such six month period.

No more than 956,250 shares of our common stock may be issued under this plan. We did not award any shares under this plan during the three months ended March 31, 2006 or March 31, 2005.



**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 2005 Annual Report on Form 10-K.

**OVERVIEW**

**Financial Results**

Net sales grew 31% to $348.6 million in the first quarter of 2006 compared to $265.2 million in 2005. Base business sales growth of 15% contributed $39.0 million to the increase with the remaining increase attributable to acquired and new service centers, including the Horizon business acquired in October 2005. In the first quarter of 2006, net sales benefited from mild weather which included the warmest January on record.

Our base business sales growth continues to reflect the growth in the installed base of swimming pools, our execution of sales and service programs that we offer to our customers, growth in complementary product sales and passing on inflationary price increases. In the first quarter of 2006, complementary product sales grew 36% compared to the same period in 2005.

Our gross profit as a percent of net sales (gross margin) increased 100 basis points to 28.1% in the first quarter of 2006 from 27.1% in the first quarter of 2005. This increase is attributable primarily to the benefits achieved through our supply chain management initiatives, including the benefit of our inventory purchases in the fourth quarter of 2005.

Our operating income increased 46% to $15.0 million in the first quarter of 2006 due primarily to the growth in sales. Net income increased 57% compared to the same period in 2005 and included $1.1 million of net equity losses from our investment in Latham Acquisition Corporation (LAC).

**Financial Position and Liquidity**

Our inventory levels increased 44% to $406.3 million as of March 31, 2006, compared to March 31, 2005, due to our large buy-in of inventory on favorable terms, the Horizon acquisition and our increased level of business. As a result of this increase, our inventory turns have slowed to 4.0 times as of March 31, 2006 from 4.4 times as of March 31, 2005. However, our inventory quality remains high as measured by the percent of inventory in our fastest-turning inventory classes. Our slowest moving class of inventory as a percentage of total inventory decreased to 1.4% at March 31, 2006 from 1.6% at March 31, 2005.

Consistent with the increase in net sales, accounts receivable increased $47.1 million to $211.6 million at March 31, 2006 from $164.5 million at March 31, 2005. Days sales outstanding (DSO) remained consistent between periods at 34.0 days at March 31, 2006 compared to 33.4 days at March 31, 2005. We continue to maintain a healthy current ratio, which was up slightly to 1.6 as of March 31, 2006 compared to 1.5 as of March 31, 2005.

Our seasonal use of cash in operations increased 19% to $60.7 million in the first quarter of 2006 compared to $51.0 million in the same period of 2005.

**Outlook**

The mild weather that helped propel first quarter results is not expected to carry through the peak season, where we believe growth will be more moderate than in the first quarter. We still expect that 2006 earnings per share will be in the range of $1.70 to $1.75 per diluted share, including an expected $0.08 impact from stock option expensing.



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 March 31, 2006, we conducted operations through 252 service 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 March 31, | |
|---|---|---|
| | **2006** | **2005** |
| Net sales | **100.0%** | 100.0 |
| Cost of sales | **71.9** | 72.9 |
| Gross profit | **28.1** | 27.1 |
| Selling and administrative expenses | **23.8** | 23.3 |
| Operating income | **4.3** | 3.9 |
| Interest expense, net | **0.8** | 0.4 |
| Income before income taxes and equity losses | **3.5** | 3.5 |

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

The following discussion of consolidated operating results includes the operating results from acquisitions in 2005 and 2004. 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 service centers from base business for 15 months:

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

Additionally, we generally allocate overhead expenses to acquired service centers on the basis of acquired service center net sales as a percentage of total net sales.

**Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005**

| **(Unaudited)<br>(In thousands)** | **Base Business Three Months Ended March 31,** | | **Acquired Three Months Ended March 31,** | | **Total Three Months Ended March 31,** | |
|---|---|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** | **2006** | **2005** |
| Net sales | **$ 302,186** | $ 263,210 | **$ 46,370** | $ 1,951 | **$ 348,556** | $ 265,161 |
| Gross profit | **85,231** | 71,366 | **12,817** | 585 | **98,048** | 71,951 |
| Gross margin | **28.2%** | 27.1% | **27.6%** | 30.0% | **28.1%** | 27.1% |
| Selling and operating expenses | **69,589** | 60,293 | **13,437** | 1,402 | **83,026** | 61,695 |
| Expenses as a % of net sales | **23.0%** | 22.9% | **29.0%** | 71.9% | **23.8%** | 23.3% |
| Operating income (loss) | **15,642** | 11,073 | **(620)** | (817) | **15,022** | 10,256 |
| Operating income (loss) margin | **5.2%** | 4.2% | **(1.3)%** | (41.9)% | **4.3%** | 3.9% |

For purposes of comparing operating results for the three months ended March 31, 2006 to the three months ended March 31, 2005, 204 service centers were included in the base business calculations and 48 service centers were excluded because they were acquired or opened in new markets within the last 15 months. The effect of service center acquisitions in the table above includes the operations of the following:

| **Acquired** | **Acquisition Date** | **Period Excluded [1]** |
|---|---|---|
| B&B s.r.l. (Busatta) | October 2005 | January - March 2006 |
| Direct Replacements, Inc. | October 2005 | January - March 2006 |
| Horizon Distributors, Inc. | October 2005 | January - March 2006 |
| Pool Tech Distributors, Inc. | December 2004 | January - February 2006 and 2005 |

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

***Net Sales***

| **(in millions)** | **Three Months Ended March 31, 2006** | **2005** | **Change** | |
|---|---|---|---|---|
| Net sales | **$ 348.6** | $ 265.2 | $ 83.4 | 31 % |

Base business sales growth was 15% in the first quarter of 2006. Net sales increased primarily due to the following:

- a larger installed base of swimming pools resulting in increased sales of non-discretionary products;
- the continued successful execution of our sales, marketing and service programs;
- mild winter weather throughout most of North America during the first quarter of 2006;
- price increases, which were passed through the supply chain; and
- 36% growth in complementary product sales.

The remaining increase in net sales is attributable to acquired and new service centers. Including Horizon s first quarter 2006 sales, complementary products sales grew over 192% over the first quarter of 2005 and accounted for 23% of total net sales.

*Gross Profit*

| (in millions) | Three Months Ended March 31, 2006 | 2005 | Change | |
|---|---|---|---|---|
| Gross profit | **$ 98.0** | $ 72.0 | $ 26.0 | 36 % |
| Gross margin | **28.1%** | 27.1% | 1.0% | |

Gross margin increased 100 basis points between periods due primarily to the benefits achieved through our supply chain management initiatives, including the benefit of our inventory purchases in the fourth quarter of 2005. This increase also reflects a small shift in product mix to our higher margin products and a slight improvement in chemical gross margins compared to the first quarter of 2005.

*Operating Expenses*

| (in millions) | Three Months Ended March 31, 2006 | 2005 | Change | |
|---|---|---|---|---|
| Operating expenses | **$ 83.0** | $ 61.7 | $ 21.3 | 35 % |
| Operating expenses as a percent of net sales | **23.8%** | 23.3% | 0.5% | |

Operating expenses as a percent of net sales increased 50 basis points from the first quarter of 2005 due primarily to the addition of Horizon s operating expenses, which includes amortization expense related to the Horizon acquisition. Base business operating expenses were 15% higher in the first quarter of 2006 compared to the same period in 2005 and consistent as a percentage of sales. The increase in base business operating expenses included higher share-based compensation costs due to accelerated expense for options issued to retirement eligible employees. Total operating expenses also increased due to start-up costs for newly opened service centers, of which half were base business. We opened eight service centers in the first quarter of 2006 compared to only two service centers in the first quarter of 2005.

*Interest Expense*

Interest expense increased $1.8 million between periods due to a 96% increase in the average debt outstanding compared to the first quarter of 2005 and an increase in the effective interest rate to 5.3% in 2006 from 3.7% in 2005.

*Income Taxes*

The increase in income taxes is due to the $3.0 million increase in income before income taxes and equity losses. Our effective income tax rate decreased from 39.0% at March 31, 2005 to 38.6% at March 31, 2006 due to the anticipated impact of certain tax advantaged business strategies.

*Net Income and Earnings Per Share*

Net income increased 57% to $6.4 million in the first quarter of 2006 from $4.1 million in the first quarter of 2005. This amount included $1.1 million of net equity losses from our investment in LAC. Diluted earnings per share increased 71% to $0.12 per share in the first quarter of 2006 compared to $0.07 per share in the first quarter of 2005.

**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 quarter of 2006, the four quarters of 2005 and the second, third and fourth quarters of 2004. 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)** | **QUARTER** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **(in thousands)** | **2006** | **2005(1)** | | | | **2004(1)** | | |
| | **First** | **Fourth** | **Third** | **Second** | **First** | **Fourth** | **Third** | **Second** |
| **Statement of Income Data** | | | | | | | | |
| Net sales | **$ 348,556** | $ 299,791 | $ 423,729 | $ 563,978 | $ 265,161 | $209,937 | $ 362,091 | $ 504,177 |
| Gross profit | **98,048** | 83,211 | 114,605 | 162,681 | 71,951 | 56,404 | 104,183 | 145,215 |
| Operating income (loss) | **15,022** | 2,288 | 41,431 | 81,389 | 10,256 | (5,013) | 35,908 | 70,910 |
| Net income (loss) | **6,422** | (876) | 26,521 | 50,709 | 4,102 | (3,656) | 21,360 | 42,444 |
| **Balance Sheet Data** | | | | | | | | |
| Total receivables, net | **$ 211,578** | $ 141,785 | $ 152,037 | $ 231,736 | $ 164,507 | $ 97,589 | $ 130,360 | $ 197,683 |
| Product inventories, net | **406,310** | 330,575 | 197,135 | 247,350 | 281,267 | 195,787 | 167,024 | 219,711 |
| Accounts payable | **267,296** | 174,170 | 99,920 | 165,872 | 219,290 | 113,114 | 76,454 | 144,029 |
| Total debt | **239,712** | 198,241 | 86,922 | 174,743 | 145,045 | 97,505 | 102,197 | 161,766 |

(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 5 of Notes to Consolidated Financial Statements included in Item 1 of this Form 10-Q.

In the fourth quarter of 2005 and first quarter of 2006, our results of operations include the Horizon business acquired in October 2005. 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 service centers. We attempt to open new service 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<br>Increased purchases of above-ground pools |
| Unseasonably cool weather or extraordinary amounts of rain | Fewer pool installations<br>Decreased purchases of chemicals and supplies<br>Decreased purchases of impulse items such as above-ground pools and accessories |
| Unseasonably early warming trends (primarily in the northern half of the US) | A longer pool season, thus increasing our sales |
| Unseasonably late warming trends (primarily in the northern half of the US) | A shorter pool season, thus decreasing our sales |

In the first quarter of 2006, our sales benefited from unseasonably warm weather across most of North America including our northern markets.

**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. The same principle applies for funds used for share repurchases and capital expenditures. Our priorities for the use of cash are as follows:

- maintenance and new service 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 from continuing operations (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | **2006** | **2005** |
| Operating activities | **$ (60,659)** | $ (50,967) |
| Investing activities | **(4,854)** | (2,774) |
| Financing activities | **44,257** | 46,590 |

As usual for this time of year, we used cash in operations during the first quarter of 2006 to build working capital ahead of the peak selling season. Additionally, we continue to benefit from the deferral of our estimated federal tax payments due to the provisions of hurricane tax relief offered by the Internal Revenue Service.

**Future Sources and Uses of Cash**

Our unsecured syndicated senior credit facility (the Credit Facility), which matures on December 20, 2010, provides for a $120.0 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. The aggregate maximum principal amount of the commitments under the Credit Facility may be increased from time to time by a total amount up to $40.0 million.

At March 31, 2006, there was $95.9 million outstanding and $22.4 million available for borrowing under the Revolver. The average effective interest rate on the Revolver was approximately 5.3% for the three months ended March 31, 2006.

At March 31, 2006, there was $60.0 million outstanding under the Term Loan. Since our first scheduled principal payment on the Term Loan of $750,000 is due on March 31, 2007, this amount is classified as current as of March 31, 2006. The average effective interest rate of the Term Loan was approximately 5.3% for the three months ended March 31, 2006.

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 2005 Annual Report on Form 10-K.

In March 2006, we renewed our accounts receivable securitization facility (the Receivables Facility), which provides a seasonal borrowing capacity of up to $150.0 million, through March 2007. 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 March 31, 2006, there was $80.3 million outstanding under the Receivables Facility at an average effective interest rate of 5.2%.

As of March 31, 2006, we were in compliance with all covenants and financial ratio requirements related to our Credit Facility and our Receivables Facility.



On April 24, 2006, $50.0 million remained available under the authorization of our Board of Directors for future share repurchases. 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.

In the third quarter of 2006, our cash flows will be negatively impacted by payment of our estimated federal tax payments that have been deferred until August 2006 as allowed by the Katrina Emergency Tax Relief Act of 2005. These estimated payments include our third and fourth quarter 2005 payments as well as our first and second quarter 2006 payments.

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, 2005. 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, 2005.

**Foreign Exchange Risk**

There have been no material changes from what we reported in our Form 10-K for the year ended December 31, 2005.

**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 March 31, 2006, management, including the CEO and CFO, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, management, including the CEO and CFO, concluded that as of March 31, 2006, our disclosure controls and procedures were effective at ensuring that material information related to us or our consolidated subsidiaries is made known to them and is disclosed on a timely basis in our reports filed under the Act.

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 significant changes in our internal control over financial reporting occurred during the last fiscal quarter that have materially affected, or are 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. 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 likel result, outlook, project and other words and expressions of similar meaning. No assurance can be given that the results in any forward-looking statements will be achieved and actual results could be affected by one or more factors, which could cause them to differ materially. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act.

**Risk Factors**

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

***We are susceptible to adverse weather conditions.***

Weather is the principal external factor affecting our business. For example, unseasonably late warming trends can decrease the length of the pool season and 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 and manufacturers.***

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

Our largest suppliers are Pentair Corporation, Hayward Pool Products, Inc. and Waterpik Technologies, Inc., which accounted for approximately 20%, 13% and 7%, respectively, of the costs of products we sold in 2005. While we do not believe that the loss of any single supplier would adversely affect our business, 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. 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 supply retailers. Outside of our industry, we compete with sellers of other leisure product alternatives, such as boats and motor homes, and with other companies who rely on discretionary homeowner expenditures, such as home remodelers. New competitors may emerge as there are low barriers to entry in our industry. Some geographic markets that we serve, particularly our largest, higher density markets in California, Florida, Texas and Arizona, representing approximately 54% of our net sales in 2005, also tend to be more competitive than others.

***More aggressive competition by mass merchants 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.

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

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 may be adversely affected by economic downturns.

***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 service center openings that have increased our size, scope and geographic distribution. Since 2001, we have opened 29 new service centers and have completed 13 acquisitions including our acquisition of Horizon in October 2005. These acquisitions have added 93 service centers, net of service 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 things as personalized websites, brochures, marketing campaigns and business development training. We also provide certain retail store customers with assistance in site selection, store layout and design and business management system implementation. Our inability to sufficiently develop effective advertising, marketing and promotional programs to succeed in a weakened economic environment and an increasingly competitive marketplace, in which we (and our entire supply chain) also compete with other luxury product alternatives, could have a material adverse effect on our business.

***Our business is highly seasonal.***

In 2005, approximately 64% of our net sales and 89% 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 service 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.

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

The table below summarizes the repurchases of our common stock in the first quarter of 2006.

**Issuer Purchases of Equity Securities**

| Period | Total number of shares purchased(2) | Average price paid per share | Total number of shares purchased as part of publicly announced plan(1) | Maximum approximate dollar value that may yet be purchased under the plan |
|---|---|---|---|---|
| January 1-31, 2006 | -- | $ -- | -- | $ 50,000,000 |
| February 1-28, 2006 | 93,189 | $ 43.61 | -- | $ 50,000,000 |
| March 1-31, 2006 | 170 | $ 44.00 | -- | $ 50,000,000 |

(1) In July 2002, our Board of Directors (our Board) authorized $50.0 million for the repurchase of shares of our common stock in the open market. In August 2004, when approximately $17.6 million of the amount authorized remained available for share repurchases, 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. In November 2005, when approximately $3.2 million of the amount authorized remained available for share repurchases, 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, all of which remained available as of April 24, 2006.

(2) Represents 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 1995 and 1998 Stock Option Plans.

**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 May 5, 2006.

**SCP 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 | Composite Certificate of Incorporation of the Company. | | 10-Q | 000-26640 | 7/30/2004 |
| 3.2 | Composite Bylaws of the Company. | | 10-Q | 000-26640 | 4/30/2003 |

| | | | Incorporated by Reference | |
|---|---|---|---|---|
| 4.1 | Form of certificate representing shares of common stock of the Company. | | S-3 | 33-92738 |
| 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 | | |