ANTHONY & SYLVAN POOLS CORP
Form 10-Q
August 13, 2002

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 June 30, 2002

[ ] 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 000-26991

Anthony & Sylvan Pools Corporation
(Exact name of registrant as specified in its charter)

Ohio	31-1522456
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6690 Beta Drive, Mayfield Village, Ohio	44143
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (440) 720-3301

Former name, former address and former fiscal year, if changed since last report.

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, as amended, 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 ___ N/A ___

Indicate the number of shares outstanding of each of the issuer's classes of common shares, as of the latest practicable date.

Class	Outstanding at August 7, 2002

Common Shares, no par value 4,842,161 Shares

ANTHONY & SYLVAN POOLS CORPORATION AND SUBSIDIARIES
FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2002

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ANTHONY & SYLVAN POOLS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	June 30, 2002 (unaudited)	Dec (
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 3,964	$
Contract receivables, net	7,433	
Inventories, net	7,872	
Prepayments and other	1,796	
Deferred income taxes	1,940	
Total current assets	23,005	
Property, Plant and Equipment, net	9,074	
Goodwill, net	26,276	
Deferred income taxes	--	
Other	2,798	
	$ 61,153	$
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt	$ --	$
Accounts payable	9,807	
Accrued expenses	15,460	
Accrued income taxes	48	
Total current liabilities	25,315	
Long-term Debt	--	
Deferred Income Tax Liabilities	99	
Other Long-term Liabilities	2,392	
Commitments and Contingencies	--	
Shareholders' Equity:		
Serial preferred shares no par value, 1,000,000 shares authorized, none issued	--	
Common shares no par value, 29,000,000 shares authorized, 4,849,861 shares issued and 4,842,161 outstanding at June 30, 2002 and 5,106,755 shares issued and 5,106,455		

outstanding at December 31, 2001	38,457	
Unearned stock compensation	(522)	
Treasury share equivalents, 1,080,599 shares at June 30, 2002 and 1,073,199 at December 31, 2001	(5,637)	
Retained earnings	1,049	
Total shareholders' equity	33,347	
	$ 61,153	$

See notes to unaudited condensed consolidated financial statements.

ANTHONY & SYLVAN POOLS CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2002 AND 2001
(In thousands, except share data)

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
Net sales	$ 63,372	$ 68,685	$ 91,665	$ 94,774
Cost of sales	44,359	47,072	66,742	68,170
Gross profit	19,013	21,613	24,923	26,604
Operating expenses(a)	14,036	15,091	24,558	25,213
Income from operations	4,977	6,522	365	1,391
Interest and other	30	(7)	152	139
Income before income taxes	4,947	6,529	213	1,252
Provision for income taxes	1,855	2,345	80	244
Net income(a)	$ 3,092	$ 4,184	$ 133	$ 1,008

Earnings per share:

Basic	$0.63	$0.82	$.03	$.20
Diluted	$0.61	$0.79	$.03	$.19
Average shares outstanding:				
Basic	4,899	5,126	4,998	5,117
Diluted	5,029	5,264	5,129	5,254

(a) Operating expenses include a non-cash deferred compensation credit of $575 and goodwill amortization expense of $368 in the six months ended June 30, 2001 and goodwill amortization expense of $184 in the three months ended June 30, 2001. Adjusting for these items, the pro forma net income for the six months ended June 30, 2001 would have been $737 or $0.14 per diluted share and the pro forma net income for the three months ended June 30, 2001 would have been $4,304 or $0.82 per diluted share.

See notes to unaudited condensed consolidated financial statements.

ANTHONY & SYLVAN POOLS CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001
(Dollars in thousands)

	S
	2002
Cash Flows from Operating Activities:	
Net income....................................	$ 13
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization...............	1,45
Non-cash deferred compensation..............	6
Deferred income taxes.......................	34
Other.......................................	5
Changes in operating assets and liabilities net of assets acquired:	
Contract receivables........................	9,46

Inventories................................	(2,07
Prepayments and other......................	55
Accounts payable...........................	2,42
Accrued expenses and other.................	2,41
Net cash provided by operating activities.	14,82
Cash Flows from Investing Activities:	
Additions to property, plant and equipment.....	(1,26
Other..	8
Net cash used in investing activities.....	(1,18
Cash Flows from Financing Activities:	
Repayment of long term debt...................	(7,55
Proceeds on exercise of stock options..........	3
Proceeds on issuance of shares................	
Purchase of treasury shares...................	(2,51
Net cash used in financing activities.....	(10,03
Net increase in cash and cash equivalents.........	3,61
Cash and Cash Equivalents:	
Beginning of period...........................	35
End of period.................................	$ 3,96
Supplemental Cash Flow Information:	
Interest paid	$ 15
Income taxes paid	$ (39

See notes to unaudited condensed consolidated financial statements.

ANTHONY & SYLVAN POOLS CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

Anthony & Sylvan Pools Corporation and Subsidiaries (the "Company") is among the largest residential in-ground concrete pool sales and installation businesses in the United States and operates in one business segment.

(2) INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated balance sheet as of June 30, 2002 and statements of income and cash flows for the three-month and six-month periods ended June 30, 2002 and 2001 are unaudited. In the opinion of management, these interim unaudited condensed consolidated financial statements have been prepared on the same basis as the audited financial statements for the year ended December 31, 2001, except for the adoption of SFAS 142 as further described in Note 7, and include all adjustments, consisting of only normal and recurring adjustments, necessary for the fair presentation of the interim period. The disclosures in the notes related to these interim unaudited condensed consolidated financial statements are also unaudited. The unaudited condensed consolidated statements of income for the three-month and six-month period ended June 30, 2002 are not necessarily indicative of the results to be expected for the full year. Financial statements should be read in conjunction with the audited financial statements included in the annual report on Form 10-K.

(3) EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share is based on the combined weighted average number of shares outstanding including the assumed exercise or conversion of options. The treasury stock method is used in computing diluted earnings per share. The calculations are as follows (in thousands except per share data):

	THREE-MONTHS ENDED JUNE 30,		SIX-MONTHS ENDED JUNE 30,	
	2002	2001	2002	2001
	(UNAUDITED)		(UNAUDITED)	
Numerator				
Net income available to common shareholders	$ 3,092	$ 4,184	$ 133	$ 1,008
Denominator				
Weighted average common shares outstanding	4,899	5,126	4,998	5,117
Dilutive effect of stock options	130	138	131	137
Denominator for net Income per diluted share	5,029	5,264	5,129	5,254

Earnings per share:				
Basic	$ 0.63	$ 0.82	$ .03	$ .20

Diluted	$ 0.61	$ 0.79	$ .03	$ .19

(4) CAPITAL STOCK

On May 1, 2002, the Board of Directors authorized a 10% stock dividend to be distributed on or about May 30, 2002 to shareholders of record on May 16, 2002. The unaudited condensed consolidated financial statements have been retroactively restated to reflect the number of shares outstanding following the dividend.

On May 8, 2002, the Company purchased a block of approximately 337,000 shares of its common stock in a private transaction for approximately $2.4 million.

(5) DEBT

The company has a $35 million revolving credit facility ("Credit Facility") with a group of banks secured by the assets of the Company. The Company's borrowing capacity and interest rates under the Credit Facility are based on its profitability and leverage. Interest is charged at increments over either Prime or Libor rates. In addition a 37.5 basis points commitment fee is payable on the total amount of the unused commitment. As of June 30, 2002, there were no outstanding borrowings under the Credit Facility and the available borrowings were $7.2 million. The Company is in compliance with all of its debt covenants under the Credit Facility.

(6) LITIGATION

Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against the Company. In the opinion of management, the results of all such matters will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

(7) NEW ACCOUNTING STANDARDS

The Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," effective January 1, 2002. Upon adoption, the Company ceased to amortize $26.3 million of goodwill. It had recorded $368,000 of amortization of goodwill in the six-months ended June 30, 2001 and $184,000 in the three-months ended June 30, 2001 and would have recorded similar amounts of amortization in 2002. Excluding any goodwill amortization in the six-months ended June 30, 2001 would have increased the reported net income to $1,312,000 or $0.25 per diluted share, for the six-month period and to $4,304,000 or $0.82 per diluted share, in the three-month period ended June 30, 2001.

In lieu of amortization, the Company was required to perform an initial impairment review of goodwill before June 30, 2002. This initial impairment review was completed during the first quarter of

2002. Based on the results of the review, management does not believe any impairment of goodwill exists.

On January 1, 2002, the Company adopted Statement No. 144, "Accounting for the Impairment of Long-Lived Assets." This Statement which supersedes Statement No. 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed of," provides a single accounting model for long-lived assets to be disposed of. Although retaining many of the fundamental recognition and measurement provisions of Statement No. 121, the Statement significantly changes the criteria that would have to be met to classify an asset as held-for-sale. The distinction is important because assets held-for-sale are stated at the lower of their fair values or carrying amounts and depreciation is no longer recognized. The adoption of Statement No. 144 did not have a significant impact on the consolidated financial position, results of operations or cash flows of the Company.

In July 2002, the FASB issued SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities. It addresses issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force (EITF) set forth in EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operations, plant closing, or other exit or disposal activity. SFAS 146 is scheduled to replace Issue 94-3 on January 1, 2003 for exit or disposal activities that are initiated after December 31, 2002. Earlier adoption is encouraged. The Company has not yet determined the timing of adoption or the impact of SFAS 146.

(8) SUBSEQUENT EVENTS

None

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Shareholders of Anthony & Sylvan Pools Corporation and subsidiaries

We have reviewed the accompanying condensed consolidated balance sheet of Anthony & Sylvan Pools Corporation and subsidiaries (the "Company") as of June 30, 2002, and the related condensed consolidated statements of income and cash flows for the three-month and six-month periods ended June 30, 2002. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of Anthony & Sylvan Pools Corporation and subsidiaries as of December 31, 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 15, 2002 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2001, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

As discussed in Note 7 to the condensed consolidated financial statements, the Company changed its method of accounting for goodwill in 2002.

KPMG LLP

July 23, 2002

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CRITICAL ACCOUNTING POLICIES

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The Company believes the following critical accounting policies affect its more significant estimates and assumptions used in the preparation of its consolidated financial statements.

REVENUE RECOGNITION Revenue from pool installation contracts is recognized on the percentage-of-completion accounting method based on the proportion of total costs incurred during the various phases of installation as a percentage of total estimated contract costs. Revisions in cost and revenue estimates are reflected in the period in which the facts requiring such revisions become known. Provision is made currently for estimated losses on uncompleted installations. The majority of the Company's contracts call for progress payments to be made while completing individual phases of the installation until the final phases of installation, at which time the remaining portion is recognized as a contract receivable. Progress payments in excess of revenue recognized are classified as billings in excess of costs and estimated earnings on uncompleted contracts, and are included in accrued expenses. Unbilled contract receivables are not material at any point in time. Contract costs include direct material, labor, subcontract costs and overheads. Selling and administrative expenses are charged to income as incurred.

WARRANTY The Company accrues an estimate of warranty claims using regression analysis formulas and estimates of the aggregate liability for claims based on the Company's historical experience. The portion of claims the Company estimates will not be paid within one year is included in other long-term liabilities.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2002 COMPARED WITH THREE MONTHS ENDED JUNE 30, 2001

Net sales of $63.4 million for the three-months ended June 30, 2002 decreased 7.7% from $68.7 million for the same period in fiscal 2001. The decrease was primarily attributable to a decrease in unit production as a result of some areas of the business experiencing more consumer constraint and price sensitivity, partially offset by increases in average selling prices compared with a year earlier.

Gross profit decreased $2.6 million to $19.0 million in 2002 from $21.6 million in 2001, primarily as a result of the decrease in net sales. Gross profit, as a percentage of sales for the three months, decreased from 31.5% of net sales to 30.0% as a result of higher material, subcontractor and other costs incurred in some of our markets which have not been fully offset by increases in average selling prices.

Operating expenses, consisting of selling and administrative expenses, decreased by $1.1 million to $14.0 million in 2002 from $15.1 million in 2001. As a percentage of sales, operating expenses increased slightly from 22.0% in 2001 to 22.1% in 2002. The decrease in operating expenses was partly attributable to decreases in headcount, professional fees and goodwill amortization.

The effective tax rate increased from 35.9% in 2001 to 37.5% in 2002 as a result of the annualized effect of a credit to non-cash deferred compensation in 2001, which was not included for tax purposes.

As a result of the above items, net income for the three-month period decreased from $4.2 million in 2001 to $3.1 million in 2002. Net income per diluted share decreased $0.18 per share to $0.61 in 2002.

SIX MONTHS ENDED JUNE 30, 2002 COMPARED WITH SIX MONTHS ENDED JUNE 30, 2001

Net sales of $91.7 million for the six-months ended June 30, 2002 decreased 3.3% from $94.8 million for the same period in fiscal 2001. The decrease was primarily attributable to a decrease in unit production as a result of lower consumer confidence levels that began to emerge in the second half of 2001, partially offset by increases in average selling prices compared with a year earlier.

Gross profit decreased $1.7 million from $26.6 million in 2001 to $24.9 million in 2002 as a result of the decrease in net sales. Gross profit as a percentage of sales for the six months decreased from 28.1% of net sales to 26.8%, primarily as a result of a combination of the decrease in revenues and higher direct costs not being fully offset by increases in average selling prices.

Operating expenses, consisting of selling and administrative expenses decreased $0.7 million from $25.2 million in 2001 to $24.5 million in 2002. As a percentage of sales, operating expenses increased slightly from 26.6% in 2001 to 26.8% in 2002. The decrease in operating expenses was partially attributable to decreases in headcount, professional fees and goodwill amortization. Included in 2001 results was a credit of $.6 million for non-cash deferred compensation related to the Company's long-term incentive plan, which was amended in the first quarter of 2001.

The effective tax rate increased from 19.5% in 2001 to 37.5% in 2002, primarily as a result of the $0.6 million non-cash deferred compensation which was included in the 2001 results. This item was not included for tax purposes.

As a result of the above net income for the six-month period decreased $0.9 million to $0.1 million in 2002. Net income per diluted share, decreased $0.16 per share from $0.19 per share from the same period last year.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operating activities was $14.8 million for the six-months ended June 30, 2002 compared with $13.4 million in the same period in fiscal 2001. The increase is attributable to reductions in receivables of $9.5 million in 2002 compared with reductions of $3.2 million in 2001, partially offset by larger increases in inventory and smaller increases in accounts payable and accrued expenses when compared with the same period last year. The Company had $16.9 million of receivables at December 31, 2001 compared with $11.6 million at December 31, 2000 as a result of increased revenue generated under deferred payment sales programs run in the Company's Northeast markets during the fourth quarter of each year. The majority of the revenue generated under these programs was collected during the first quarter of each of the years. Cash used in investing activities decreased $1.1 million from $2.3 million in 2001 to $1.2 million in 2002 as a result of lower capital expenditures. The remaining cash provided by operating activities was used to repay bank borrowings,

reducing long-term debt to zero and to finance approximately $2.5 million of treasury stock purchases.

The Company has a $35 million revolving credit facility ("Credit Facility") with a group of banks secured by the assets of the Company. Total available borrowing capacity under the Credit facility at June 30, 2002 was $7.2 million. The Company is in compliance with all of its debt covenants under the Credit Facility.

The Company believes that existing cash and cash equivalents, internally generated funds and funds available under its line of credit will be sufficient to meet its needs.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is exposed to various market risks, including changes in pricing of equipment, materials and contract labor, and interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices, such as commodity prices and interest rates. The Company does not enter into financial instruments to manage and reduce the impact of some of these risks. Further, the Company does not enter into derivatives or other financial instruments for trading or speculative purposes.

The Company is exposed to cash flow and risk arising out of changes in interest rates with respect to its long-term debt. Information with respect to the Company's principal cash flows and weighted average interest rates on long-term debt at June 30, 2002 is included in the Unaudited Condensed Consolidated Financial Statements and the Notes to the Unaudited Condensed Consolidated Financial Statements.

Prior to an amendment of the Company's Long-Term Incentive Plan on April 1, 2001, the Company's financial results were impacted by fluctuations in its stock price, as a portion of the Company's Long-Term Incentive Plan was treated as a variable versus a fixed stock option or award plan. As a result of the amendment, the Company no longer accounts for any portion of the Plan as a variable plan.

CYCLICALITY AND SEASONALITY

The Company believes that the in-ground swimming pool industry is strongly influenced by general economic conditions and tends to experience periods of decline during economic downturns. Since the majority of the Company's swimming pool installation purchases are financed, pool sales are particularly sensitive to interest rate fluctuations and the availability of credit. A sustained period of high interest rates could result in declining sales, which could have a material adverse effect on The Company's financial condition and results of operations.

Historically, approximately two-thirds of the Company's revenues have been generated in the second and third quarters of the year, the peak season for swimming pool installation and use. Conversely, the Company typically incurs net losses during the first and fourth quarters of the year. Unseasonably cold weather or extraordinary amounts of rainfall during the peak sales season can significantly reduce pool purchases. In addition, unseasonably early or late warming trends can increase or decrease the length of the swimming pool season, significantly affecting sales and operating profit.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

No change

ITEM 2. CHANGES IN SECURITIES

No change

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF THE SECURITY HOLDERS

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.1 Amendment No. 4 dated as of June 30, 2002 to the Credit Agreement dated as of July 8, 1999 among Anthony and Sylvan Pools Corporation and the Lending Institutions - National City Bank, Firstar Bank, N.A. and LaSalle Bank N.A.

99.1 Certification pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.2 Certification pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

None

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SIGNATURE

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.

Anthony & Sylvan Pools Corporation
(Registrant)

Stuart D. Neidus

STUART D. NEIDUS
Chairman and Chief Executive Officer
(Principal Executive Officer)

William J. Evanson

WILLIAM J. EVANSON
Executive Vice President
and Chief Financial Officer
(Principal Accounting Officer)

Date: August 13, 2002