ANTHONY & SYLVAN POOLS CORP
Form 10-Q
November 14, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT Of 1934

For the quarterly period ended SEPTEMBER 30, 2001

[ ] 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 NOVEMBER 12, 2001
Common Shares, no par value	4,231,948 Shares

ANTHONY & SYLVAN POOLS CORPORATION AND SUBSIDIARIES
FORM 10-Q

FOR QUARTER ENDED SEPTEMBER 30, 2001

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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)

	September 30, 2001	December 31, 2000
ASSETS	(unaudited)	(audited)
Current Assets:		
Cash and cash equivalents	$ 7,668	$ 422
Contract receivables, net	8,843	11,592
Inventories, net	6,142	5,219
Prepayments and other	1,515	1,542
Deferred income taxes	1,974	1,914
Total current assets	26,142	20,689
Property, Plant and Equipment, net	9,059	8,674
Goodwill, net	26,461	27,003
Deferred income taxes	1,030	939
Other	2,860	2,837
	$ 65,552	$ 60,142
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt	$ 19	$ 62
Accounts payable	9,234	6,323
Accrued expenses	15,000	12,379
Accrued income taxes	1,380	505
Total current liabilities	25,633	19,269
Long-term Debt	--	1,250
Deferred Income Tax Liabilities	865	945
Other Long-term Liabilities	2,306	2,254
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, 4,236,819 shares issued and 4,231,609 outstanding at September 30, 2001 and 4,478,224 issued and outstanding at December 31, 2000	36,998	36,261
Treasury shares and equivalents, 882,080 shares at September 30, 2001 and 876,870 shares at December 31, 2000	(5,586)	(5,546)
Retained earnings	5,336	5,709
Total shareholders' equity	36,748	36,424
	$ 65,552	$ 60,142

See notes to unaudited condensed consolidated financial statements.

ANTHONY & SYLVAN POOLS CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2001 AND 2000 (In
thousands, except share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Net sales....................	$ 57,118	$ 63,188	$151,892	$160,778
Cost of sales................	41,251	45,025	109,421	115,682
Gross profit...............	15,867	18,163	42,471	45,096
Operating expenses(a)........	13,186	13,354	38,399	37,897
Income from operations.....	2,681	4,809	4,072	7,199
Interest and other	1	(72)	140	145
Income before income taxes.	2,680	4,881	3,932	7,054
Provision for income taxes...	999	1,665	1,243	2,744
Net income(b)..............	$ 1,681	$ 3,216	$ 2,689	$ 4,310
Earnings per share:				
Basic	$0.40	$0.89	$0.64	$1.21
Diluted	$0.39	$0.76	$0.62	$1.03
Average shares outstanding:				
Basic	4,213	3,599	4,224	3,562
Diluted	4,325	4,225	4,335	4,188

(a) Operating expenses include a non-cash deferred compensation credit of $575 in the nine months ended September 30, 2001 and a non-cash deferred compensation credit of $107 in the three months ended September 30, 2000 and an expense of $648 in nine months ended September 30, 2000.

(b) For net income there is an after-tax non-cash deferred compensation credit of $575 in the nine months ended September 30, 2001. For the three-month and nine-month periods ended September 30, 2000, there is an after-tax non-cash deferred compensation credit of $102, and an after-tax expense of $619, respectively.

See notes to unaudited condensed consolidated financial statements.

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ANTHONY & SYLVAN POOLS CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000
(Dollars in thousands)

	Nine Mont Septem 2001
Cash Flows from Operating Activities:	
Net income	$ 2,689
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	2,566
Non-cash deferred compensation	(575)
Deferred income taxes	(231)
Other	24
Changes in operating assets and liabilities net of assets acquired:	
Contract receivables	2,749
Inventories	(923)
Prepayments and other	56
Accounts payable	2,911
Accrued expenses and other	3,496
Net cash provided by operating activities	12,762
Cash Flows from Investing Activities:	
Additions to property, plant and equipment	(2,423)
Other	(15)
Net cash used in investing activities	(2,438)
Cash Flows from Financing Activities:	
Repayment of long term debt	(1,293)
Proceeds on exercise of stock options	--
Proceeds on issuance of shares	530
Purchase of treasury shares	(2,315)
Net cash used in financing activities	(3,078)

Net increase in cash and cash equivalents	7,246
Cash and Cash Equivalents:	
Beginning of period	422
End of period	$ 7,668
Supplemental Cash Flow Information:	
Interest paid	$ 147
Income taxes paid	$ 599

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 September 30, 2001 and statements of income and cash flows for the three-month and nine-month periods ended September 30, 2001 and 2000 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, 2000 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 nine-month periods ended September 30, 2001 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 are based on the combined weighted average number of common 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 SEPTEMBER 30,		NINE-MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
	(UNAUDITED)		(UNAUDITED)	
Numerator				
Net income available to common shareholders	$1,681	$3,216	$2,689	$4,310
Denominator				
Weighted average common shares outstanding	4,213	3,599	4,224	3,562
Dilutive effect of stock options	112	626	111	626
Denominator for net Income per diluted share	4,325	4,225	4,335	4,188

Earnings per share:

Basic	$0.40	$0.89	$0.64	$1.21
Diluted	$0.39	$0.76	$0.62	$1.03

(4) STOCK DIVIDENDS

On May 4, 2001, the Board of Directors authorized a 10% stock dividend to be distributed on or about May 30, 2001 to shareholders of record on May 16, 2001. The unaudited condensed consolidated financial statements have been retroactively restated to reflect the number of shares outstanding following the dividend.

On October 25, 2001, the Board of Directors authorized a 10% stock dividend to be distributed on or about November 30, 2001 to shareholders of record on November 16, 2001. The consolidated financial statements have not been retroactively restated to reflect the number of shares outstanding following this dividend.

(5) DEBT

On August 10, 1999, the Company entered into a $35 million revolving credit facility ("Credit Facility") with a group of banks. The Credit Facility, secured by the assets of the Company, matures August 10, 2002 and may be extended in one-year increments with the approval of the bank group. 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 September 30, 2001, there were no outstanding borrowings under the Credit Facility and the available borrowings were $14.5 million. The Company is in compliance with all of its debt covenants under the Credit Facility.

(6) AMENDMENT TO THE LONG-TERM INCENTIVE PLAN FOR EMPLOYEES AND DIRECTORS

The Company amended its Long-Term Incentive Plan (the "Plan") effective April 1, 2001 to eliminate features that required variable accounting treatment. As a result of the amendment, the Company no longer accounts for any portion of the Plan as a variable plan.

(7) 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.

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(8) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities," establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. The Company adopted the statement effective January 1, 2001. The adoption of SFAS No. 133 did not have a significant impact on the financial position or results of operations of the Company because the Company does not have derivative instruments.

In July 2001, the FASB issued Statement No. 142, Goodwill and Other Intangible Assets, which will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement No. 142. The Company is required to adopt the provisions of Statement No. 142 effective January 1, 2002.

At September 30, 2001, the Company has unamortized goodwill in the amount of $26,461,000, which will be subject to the transition provisions of Statement No. 142. Amortization expense related to goodwill was $552,000 and $549,000 for the nine-month periods ended September 30, 2001 and 2000, respectively. Because of the extensive effort needed to comply with adopting statement No. 142, it is not practicable to reasonably estimate the impact of adopting this statement on the Company's financial statements at the date of this report, including whether it will be required to recognize any transitional impairment losses as the cumulative effect of a change in accounting principle.

In October 2001, the FASB issued 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 and 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. This distinction is important because assets held-for-sale are stated at lower of their fair values or carrying amounts and depreciation is no longer recognized. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company has not yet determined the impact that Statement No. 144 will have on its consolidated financial position, results of operations or cash flows.

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INDEPENDENT ACCOUNTANTS' 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 September 30, 2001, and the related condensed consolidated statements of operations and cash flows for the three-month and nine-month periods ended September 30, 2001. 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 generally accepted auditing standards, 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.

The financial statements for the year ended December 31, 2000, were audited by other accountants and they expressed an unqualified opinion on them in their report dated March 28, 2001, but they have not performed any auditing procedures since that date.

KPMG LLP

October 25, 2001

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED WITH
THREE MONTHS ENDED SEPTEMBER 30, 2000

Revenue of $57.1 million for the three-months ended September 30, 2001 decreased 9.6% from $63.2 million for the same period in 2000. The decrease was attributable to a decline in unit production as a result of weaker demand patterns and consumer confidence levels partially offset by increases in average selling prices compared with a year earlier.

Gross profit decreased $2.3 million to $15.9 million in 2001 from $18.2 million in 2000, partly as a result of the decrease in net sales. Gross profit, as a percentage of sales for the three months, decreased from 28.7% of net sales to 27.8% as a result of spreading higher fixed construction expenses over a lower revenue base.

Operating expenses, consisting of selling and administrative expenses, decreased slightly from $13.4 million in 2000 to $13.2 million in 2001. As a percentage of sales, operating expenses were higher at 23.1% in 2001 compared with 21.1% in 2000 as a result of the lower revenues.

The effective tax rate increased from 34.1% in 2000 to 37.3% in 2001 as a result of the impact of non-cash deferred compensation, which is not included for tax purposes, and higher effective state income taxes.

As a result of the above items, net income for the three-month period decreased from $3.2 million in 2000 to $1.7 million in 2001. Net income per diluted share decreased $0.37 per share to $0.39 in 2001. On a pro-forma basis, excluding the impact of non-cash deferred compensation, net income and earnings per share for the three-month period ended September 30, 2001 are the same as the reported income and earnings per share, with net income decreasing 46.0% over last year's pro-forma net income of $3.1 million, and diluted earnings per share decreasing 47.3% over pro-forma diluted earnings per share of $0.74 for the same period last year.

NINE MONTHS ENDED SEPTEMBER 30, 2000 COMPARED WITH
NINE MONTHS ENDED SEPTEMBER 30, 1999

Net sales of $151.9 million for the nine-months ended September 30, 2001 decreased 5.5% from $160.8 million for the same period in fiscal 2000. The decrease was primarily attributable to a decrease in unit production partially offset by increases in average selling prices.

Gross profit decreased $2.6 million to $42.5 million in 2001 from $45.1 million in 2000 as a result of the decrease in net sales. Gross profit as a percentage of sales for both periods was 28.0%.

Operating expenses, consisting of selling and administrative expenses increased $0.4 million to $38.4 million in 2001 from $38.0 million in 2000. As a percentage of sales, operating expenses increased from 23.6% in 2000 to 25.3% in 2001. The percentage of sales increase was attributable to a combination of the reduction in sales and higher administrative expenses related to the costs associated with improvements that have been made in the Company's

infrastructure and operating methods. Operating expenses in 2000 include $0.6 million of non-cash deferred compensation expense related to the Company's long-term incentive plan compared with a credit of $0.6 million in 2001.

The effective tax rate decreased from 38.9% in 2000 to 31.6% in 2001, primarily as a result of the decrease in non-cash deferred compensation related to the Company's long-term incentive plan. This item is not included for tax purposes.

As a result of the above net income for the nine-month period decreased $1.6 million to $2.7 million in 2001. Net income per diluted share, decreased $0.41 per share to $0.62. On a pro-forma basis, excluding the impact of non-cash deferred compensation, pro-forma net income of $2.1 million, or $0.49 per share for the nine months ended September 30, 2001, compares with pro-forma net income of $4.9 million, or $1.18 per share, for the same period last year.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operating activities was $12.8 million for the nine months ended September 30, 2001 compared with $14.4 million in 2000. The decrease was primarily attributable to lower net income. Cash used in investing activities increased from $2.0 million in the prior year to $2.4 million in the current year primarily as a result of the Company's investment in computers and related software.

The excess of cash from operating activities over cash used in investing activities of $10.3 million was used to acquire $2.3 million of treasury shares under the Company's share buyback program, repay long-term debt of $1.3 million and increase cash balances.

On August 10, 1999, the Company entered into a $35 million revolving credit facility ("Credit Facility") with a group of banks. The Credit Facility, secured by the assets of the Company, matures August 10, 2002 and may be extended in one-year increments with the approval of the bank group. 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 September 30, 2001, there were no outstanding borrowings under the Credit Facility and the available borrowings were $14.5 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 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 interest rate calculations on long-term debt at September 30, 2001 is included in the Unaudited Condensed Consolidated Financial Statements.

The Company's financial results have been 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 award plan. The plan was amended in April 2001, resulting in the Company no longer accounting for any portion of the plan as a variable plan.

CYCLICALITY AND SEASONALITY

The Company believes that the swimming pool leisure industry is strongly influenced by general economic conditions and consumer spending and as such 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 70% 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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued Statement No. 142, Goodwill and Other Intangible Assets, which will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement No. 142. The Company is required to adopt the provisions of Statement No. 142 effective January 1, 2002.

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In October 2001, the FASB issued 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 and 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. This distinction is important because assets held-for-sale are stated at lower of their fair values or carrying amounts and depreciation is no longer recognized. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company has not yet determined the impact that Statement No. 144 will have on its consolidated financial position, results of operations or cash flows.

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

None

(b) Reports on Form 8-K

None

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)

/s/ Stuart D. Neidus

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

/s/ William J. Evanson

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

Date: November 13, 2001