ANTHONY & SYLVAN POOLS CORP
Form 10-Q
October 28, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDING SEPTEMBER 30, 2003

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

FOR THE TRANSITION PERIOD FROM ______________ TO ______________

Commission File No. 000-26991

ANTHONY & SYLVAN POOLS CORPORATION
(Exact name of registrant as specified in its charter)

Ohio	31-1522456
(State of Incorporation)	(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

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 [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by checkmark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

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

Class	Outstanding at October 23, 2003
Common Shares, no par value	5,341,931 Shares

ANTHONY AND SYLVAN POOLS CORPORATION
FORM 10-Q

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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, 2003 (unaudited)	December 31, 2002 (audited)
Assets		
Current Assets:		
Cash and cash equivalents	$ 10,010	$ 432
Contract receivables, net	7,686	8,354
Inventories	6,091	5,841
Prepayments and other	3,340	3,655
Deferred income taxes	2,510	1,936
Total current assets	29,637	20,218
Property, plant and equipment, net	6,450	7,794
Goodwill, net	26,276	26,276
Deferred income taxes	--	373
Other	2,841	2,951
Total assets	$ 65,204	$ 57,612
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 9,995	$ 4,310
Accrued expenses	16,155	11,149
Net liabilities of discontinued operations	758	1,169
Accrued income taxes	1,330	14
Total current liabilities	28,238	16,642
Long-term debt	--	6,300
Other long-term liabilities	3,525	3,526
Commitments and contingencies	--	--
Shareholders' equity	33,441	31,144
Total liabilities and shareholders' equity	$ 65,204	$ 57,612

See notes to unaudited condensed consolidated financial statements.

ANTHONY & SYLVAN POOLS CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Operations

For the Three Months and Nine Months Ended September 30, 2003 and 2002
(In thousands, except per share data)

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Mon Septem 2003
Net Sales	$ 61,786	$ 46,950	$ 139,265
Cost of Sales	43,463	32,991	98,663
Gross Profit	18,323	13,959	40,602
Operating expenses	13,777	11,653	36,834
Operating income from continuing operations	4,546	2,306	3,768
Interest and other expense	43	55	218
Income before income taxes from continuing operations	4,503	2,251	3,550
Income taxes	1,675	844	1,332
Net Income from continuing operations	2,828	1,407	2,218
Loss from discontinued operations, net of income taxes	--	(1,230)	--
Net income	$ 2,828	$ 177	$ 2,218
Basic income per share:			
Basic income per share from continuing operations	$ 0.54	$ 0.27	$ 0.42
Basic (loss) per share from discontinued operations	--	(0.24)	--
Net income	$ 0.54	$ 0.03	$ 0.42
Diluted income per share:			
Diluted income per share from continuing operations	$ 0.53	$ 0.26	$ 0.42
Diluted (loss) per share from discontinued operations	--	(0.23)	--
Net income	$ 0.53	$ 0.03	$ 0.42
Average shares outstanding:			
Basic	5,245	5,229	5,245
Diluted	5,313	5,298	5,309

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, 2003 and 2002

(Dollars in thousands)

	2003	2002
Cash Flows from Operating Activities:		
Net income	$ 2,218	$ 310
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations	--	2,351
Depreciation	1,942	1,994
Deferred income taxes and other non-cash items	(61)	79
Changes in operating assets and liabilities:		
Contract receivables	668	9,847
Inventories	(250)	(1,246)
Prepayments and other	315	227
Accounts payable	5,685	643
Accrued expenses and other	6,431	2,332
Net cash provided by operating activities	16,948	16,537
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(659)	(1,356)
Net cash used in investing activities	(659)	(1,356)
Cash Flows from Financing Activities:		
Repayments of long-term debt	(6,300)	(7,555)
Proceeds from stock option exercise	--	34
Treasury stock purchases	--	(2,513)
Net cash used in financing activities	(6,300)	(10,034)
Increase in Cash and Cash Equivalents	9,989	5,147
Net cash used in discontinued operations	(411)	(2,218)
Cash and Cash Equivalents:		
Beginning of period	432	351
End of period	$ 10,010	$ 3,280

See notes to unaudited condensed consolidated financial statements.

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ANTHONY & SYLVAN POOLS CORPORATION AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

1. Summary of Accounting Policies

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. The accompanying unaudited, condensed consolidated financial statements of the registrant have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. Some required information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to these rules and regulations. In the opinion of management, the unaudited financial statements include all adjustments, consisting only of normal recurring accruals, considered necessary for the fair presentation of the financial position and the results of operations. Operating results for the three-month or nine-month periods ended September 30, 2003 are not necessarily indicative of the results that may be expected for the full fiscal year. For further information, refer to the consolidated financial statements and notes included in the registrant's Annual Report on Form 10-K for the year ended December 31, 2002.

Consolidation--The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Inventories--Inventories consist of materials and equipment purchased for installation or use in pools and are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Revenue Recognition--Revenue from swimming 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. 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.

Use of Estimates--The preparation of the consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Stock Option Plans--The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, including FASB Interpretation No. 44, "Accounting for Certain Transactions involving Stock Compensation, an Interpretation of APB Opinion No. 25," to account for its fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market value of the underlying stock exceeded the exercise price. SFAS No. 123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and has adopted only the disclosure requirements of SFAS No. 123 and SFAS No. 148. The following table illustrates the effect on net income if the fair-value-based method had been applied to all outstanding and unvested awards for the three-month and nine-month periods ended September 30, 2003 and September 30, 2002.

(In Thousands, except per share data):	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	N
Net income from continuing operations, as reported	$ 2,828	$ 1,407	$
Add stock-based employee compensation expense included in reported net income, net of tax	18	20	
Deduct total stock-based employee compensation expense determined under fair-value-based method for all rewards, net of tax	(83)	(83)	
Pro forma net income from continuing operations	$ 2,763	$ 1,344	$
Income per share from continuing operations:			
Basic - as reported	$ 0.54	$ 0.27	$
Basic - pro forma	$ 0.53	$ 0.26	$
Diluted - as reported	$ 0.53	$ 0.26	$
Diluted - pro forma	$ 0.52	$ 0.25	$

Reclassifications--Certain reclassifications have been made to the 2002 condensed consolidated financial statements to make the presentation consistent with the current period.

2. Discontinued Operations and Restructuring Charge

As more fully disclosed in Note 3 of Notes to Consolidated Financial Statements included in Item 8 of the registrant's Annual Report on Form 10-K for the year ended December 31, 2002, the Company, in 2002, closed two swimming pool installation divisions in the Orlando and Southeastern Florida markets. The consolidated financial statements have been reclassified to reflect those operations as discontinued. The Company recorded a reserve in 2002, which consists of severance costs, future lease obligations and other exit costs. The following is a summary of activity charged against the reserve during the nine-month period ended September 30, 2003 (dollars in thousands):

	Reserves At 12-31-02	Payments	Reserves At 9-30-03
Leases	$ 625	$ (302)	$ 323
Severance payments	25	(20)	5
Other	216	(168)	48
	$ 866	$ (490)	$ 376

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3. Long-Term Debt

The Company had no long-term debt at September 30, 2003. The Company has a revolving credit facility ("Credit Facility"), as more fully disclosed in Note 5 of Notes to Consolidated Financial Statements included in Item 8 of the registrant's Annual Report on Form 10-K for the year ended December 31, 2002. The Company is in compliance with all of its debt covenants under the Credit Facility at September 30, 2003.

In July 2003, the Credit Facility was amended to reduce the maximum amount of borrowing from $35 million to $25 million, based on a review of the Company's historic and future borrowing needs. As a result, the Company will reduce its annual Credit Facility commitment fees by approximately $40,000.

4. 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 September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ende September 30, 2003	Nine Months Ende September 30, 2002
Numerator:				
Net income from continuing operations	$ 2,828	$ 1,407	$ 2,218	$ 2,6
Net loss from discontinued operations	--	(1,230)	--	(2,3
Net income	$ 2,828	$ 177	$ 2,218	$ 3
Denominator:				
Weighted average common shares outstanding	5,245	5,229	5,245	5,4
Dilutive effect of stock options	68	69	64	
Denominator for net income per diluted share	5,313	5,298	5,309	5,4
Basic income per share:				
Continuing operations	$ 0.54	$ 0.27	$ 0.42	$ 0.
Discontinued operations	--	(0.24)	--	(0.
	$ 0.54	$ 0.03	$ 0.42	$ 0.
Diluted income per share:				
Continuing operations	$ 0.53	$ 0.26	$ 0.42	$ 0.
Discontinued operations	--	(0.23)	--	(0.

$ 0.53	$ 0.03	$ 0.42	$ 0.

Outstanding stock options with prices ranging from $4.07 to $9.03 were not included in the computation of diluted EPS because the options' exercise prices were greater than the market price of the common shares.

5. Product Warranties

The Company provides certain warranties with its swimming pools and accrues for the liability associated with these warranties using regression analysis formulas based on historical claims experience. The changes in the carrying amount of the warranty accrual were as follows for the nine-month periods ended September 30, 3002 and 2002 (dollars in thousands):

	2003	2002
Balance at beginning of year	$ 3,881	$ 3,549
Warranty expense	1,864	1,665
Warranty payments	(1,857)	(1,152)
Balance at September 30	$ 3,888	$ 4,062

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.

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7. New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Company has adopted Interpretation No. 46, effective at the beginning of its first interim period beginning after June 15, 2003. There was no material impact on the results of operations or financial position of the Company as a result of the adoption of Interpretation No. 46.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends SFAS No. 133 for decisions made (1) as part of the Derivatives Implementation Group process that effectively required amendments to SFAS No. 133, (2) in connection with other FASB projects dealing with financial instruments and (3) in connection with implementation issues raised in relation to the application of the definition of a derivative. This statement was adopted by the Company effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. There was no material impact on the results of operations or financial position of the Company as a result of the adoption of SFAS No. 149.

On May 15, 2003, the FASB issued SFAS No. 150, "Accounting for Certain

Financial Instruments with Characteristics of Both Liabilities and Equity." This statement requires issuers to classify as liabilities (or assets in some circumstances) three classes of freestanding financial instruments that embody obligations for the issuer. Generally, the Statement is effective for financial instruments entered into or modified after May 31, 2003. The Company has adopted SFAS No. 150, effective at the beginning of its first interim period beginning after June 15, 2003. There was no material impact on the results of operations or financial position of the Company as a result of the adoption of SFAS No. 150.

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Independent Accountants' Review Report

To the Board of Directors and Shareholders,
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, 2003, the related condensed consolidated statements of operations for the three-month and nine-month periods ended September 30, 2003 and 2002, and the related condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2003 and 2002. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews 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 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 reviews, we are not aware of any material modifications that should be made to the 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, 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 14, 2003, 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, 2002, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

KPMG LLP

October 21, 2003
Cleveland, Ohio

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

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information included in this report and other materials filed with the Securities and Exchange Commission (as well as information included in oral or other written statements made or to be made by the Company) contains statements that are forward-looking. All forward looking statements are based on current expectations regarding important risk factors, including but not limited to: the costs of integrating acquired businesses; dependence on existing management; consumer spending and market conditions; interest rates and weather. Accordingly, actual results may differ from those expressed in any forward-looking statements, and the making of such statements should not be regarded as a representation by the Company or any other person that the results expressed therein will be achieved.

Critical Accounting Policies

Management's discussion and analysis of its financial condition and results of operations are based upon the Company's unaudited condensed consolidated financial statements. The Company believes the following critical accounting policies affect its more significant estimates and assumptions used in the preparation of its condensed consolidated financial statements.

Revenue Recognition - Revenue from swimming 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. 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

<u>THREE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 2002</u>

Net sales from continuing operations of $61.8 million for the three-months ended September 30, 2003 compared with net sales of $47.0 million reported a year ago. The increase of $14.8 million or 31.5% in sales was primarily attributable to a 23.2% increase in actual new pool units produced, increases in renovation activity and a 6.6% increase in average selling prices compared with the same period last year.

Gross profit from continuing operations increased to $18.3 million in the third quarter ended September 30, 2003 compared with $14.0 million in the third quarter of 2002, primarily as a result of the increase in net sales. As a percentage of sales, gross profit for the third quarter of 2003 was 29.7% which was consistent with the gross profit rate of 29.7% in the third quarter of 2002.

Operating expenses, which include selling and administrative expenses, were $13.8 million in the third quarter of 2003, or approximately $2.1 million higher than operating expenses of $11.7 million in the third quarter of 2002. The increase was primarily attributable to certain variable costs, including commissions, that are directly related to the sales increase, and higher incentive compensation and general insurance costs compared with a year ago. As a percent of sales, operating expenses declined to 22.3% in 2003 versus 24.8% in 2002.

The Company's effective tax rate for the third quarter ended September 30, 2003 was 37.2% compared with an effective tax rate in the third quarter of 2002 of 37.5%.

Primarily as a result of the above items, the net income from continuing operations increased $1.4 million to $2.8 million in the third quarter of 2003. The net income per diluted share from continuing operations was $0.53 in the third quarter of 2003 compared with net income per diluted share from continuing operations of $0.26 per share in the third quarter of 2002.

In 2002, the Company closed its swimming pool installation businesses in the Orlando and Southeastern Florida markets. These operations are shown as discontinued in the financial statements. The net loss from these operations, net of taxes, in the third quarter of 2002 was ($1.2) million, or ($0.23) per diluted share. The net income, including discontinued operations, recorded in the third quarter of 2002 was $0.2 million, or $0.03 per diluted share.

NINE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 2002

Net sales from continuing operations of $139.3 million for the nine months ended September 30, 2003 compared with net sales of $128.2 million reported for the same period a year ago. The increase in sales was primarily attributable to the combination of a 6.5% increase in average selling prices, a 2.0% increase in actual new pool units produced and increased renovation activity.

Gross profit from continuing operations of $40.6 million increased $2.6 million in the nine months ended September 30, 2003 compared with $38.0 million from the previous year, primarily as a result of the increase in net sales. As a percentage of sales, gross profit for the first nine months of 2003 was 29.2% compared with 29.6% in the first nine months of 2002. The decrease in the gross profit rate was partially attributable to higher warranty expenses compared with a year ago.

Operating expenses, which include selling and administrative expenses, were $36.8 million in the first nine months of 2003 compared with $33.5 million in operating expenses for the first nine months of 2002. The increase was primarily attributable to certain variable costs, including commissions, that are directly related to the sales increase, and higher incentive compensation and general insurance costs which were partially offset by lower advertising expenses in the first nine months of 2003 compared with a year ago. As a percent of sales, operating expenses were 26.4% of sales compared with 26.1% a year ago.

The Company's effective tax rate for the nine months ended September 30, 2003 was 37.5%. This is the same effective tax rate as the first nine months of 2002.

Primarily as a result of the above items, net income from continuing operations was $2.2 million in the first nine months of 2003. This compares with net income of $2.7 million from continuing operations for the first nine months of 2002. The net income per diluted share from continuing operations was $0.42 in the first nine months of 2003 compared with net income per diluted share from continuing operations of $0.49 per share in the first nine months of 2002. There were approximately 3.3% less outstanding diluted shares in the first nine months of 2003 compared with the same period a year ago.

In 2002, the Company closed its swimming pool installation businesses in the Orlando and Southeastern Florida markets. These operations are shown as discontinued in the financial statements. The net loss from these operations, net of taxes, in the first nine months of 2002 was ($2.4) million, or ($0.43) per diluted share. Net income, including discontinued operations, recorded in the first nine months of 2003 was $0.3 million, or $0.06 per diluted share.

Liquidity and Capital Resources

For the nine-month period ended September 30, 2003, net cash provided by operating activities was $16.9 million compared with net cash provided by operating activities of $16.5 million in the first nine months of 2002. The increase in comparative nine months' cash flow amounts was primarily attributable to the combination of larger increases in accounts payable and accrued expenses in 2003 compared with 2002, partially offset by reductions in accounts receivable in 2003 compared with 2002. While the actual contract receivables' balances at September 30, 2003 and September 2002 are similar, the large reduction in contract receivables in 2002 was primarily attributable to a special deferred payment program that expired at the end of 2001 which required customers to make payments of the deferred payment amounts in the first half of 2002. Capital expenditures in the first nine months of 2003 were $0.7 million compared with $1.4 million in the first nine months of 2002. The majority of the 2003 capital expenditures related to the purchase of computer hardware and software. $6.3 million of cash provided by operating activities in the first half of 2003 was used to pay off the Company's bank borrowings at December 31, 2002.

The Company does not have any off-balance sheet financing activities.

The Company amended its credit facility ("Credit Facility") in July 2003 to reduce the maximum amount of borrowing from $35 million to $25 million based on a review of the Company's historic and future borrowing needs. The credit facility is secured by the assets of the Company and matures August 10, 2004. 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 50 basis

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points commitment fee is payable on the total amount of the unused commitment. There were no borrowings outstanding at September 30, 2003 and 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 Credit Facility will be sufficient to meet its needs.

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 it is believed that 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. Conversely, a sustained period of low interest rates could help offset the impact of any economic downturns.

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.

Item 3. 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. The Company does not enter into derivatives or other financial instruments for trading or speculative purposes.

The Company is exposed to cash flow and fair value risk arising out of changes in interest rates with respect to its long-term debt. There have been no material changes to weighted average interest rates on long-term debt at December 31, 2002 as more fully disclosed in Note 5 of Notes to Consolidated Financial Statements included in Item 8 of the registrant's Annual Report on Form 10-K for the year ended December 31, 2002.

Item 4. Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chairman and Chief Executive Officer of the Company and the Chief Financial Officer of the Company, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) as of the end of the period covered by this report. Based upon that evaluation, the Chairman and Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

There has been no significant change in our internal control over financial reporting that occurred during the period covered by this report that has materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting.

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 5. Other Information

The Company intends to commence an odd-lot tender offer on October 28, 2003 to shareholders that own 99 or fewer shares at a price of $4.00 per share. The offer could result in the Company deregistering its common shares under the Securities Exchange Act of 1934. In addition, the common shares would no longer be eligible for trading on the Nasdaq SmallCap Market.

Item 6. Exhibits and Reports on Form 8-K

(a) List of Exhibits

31.1* Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)

31.2* Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)

32.1** Certification of Chief Executive Officer of Anthony & Sylvan Pools Corporation Pursuant to 18 U.S.C. 1350

32.2** Certification of Chief Financial Officer of Anthony & Sylvan Pools Corporation Pursuant to 18 U.S.C. 1350

* Filed herewith
** Furnished herewith

(b) Reports on Form 8-K

On July 25, 2003 the Company furnished a Current Report on Form 8-K with the Securities and Exchange Commission. That Current Report on Form 8-K, under Item 9, included an Anthony & Sylvan Pools Corporation press release, dated July 24, 2003, announcing its financial results for the second quarter and six months ended June 30, 2003.

Signatures

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ Stuart D. Neidus

Stuart D. Neidus
Chairman and Chief Executive Officer
(Principal Executive Officer)

By: /s/ William J. Evanson

William J. Evanson
Executive Vice President
and Chief Financial Officer
(Principal Accounting Officer)

October 28, 2003