

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2002

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 0-20328

AMTROL INC.

(Exact Name of Registrant as Specified in its Charter)

Rhode Island

05-0246955

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer Identification No.)

1400 Division Road, West Warwick, RI 02893-1008

(Address of principal executive offices)

Registrant's telephone number, including area code: **(401) 884-6300**

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: \$.01 Par Value: 100 shares of Common stock as of November 13, 2002.

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AMTROL INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(In thousands)

	Unaudited September 30, 2002	Audited December 31, 2001
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ —	\$ 983
Accounts receivable, less allowance for doubtful accounts	30,026	28,456
Inventories	23,435	19,785
Deferred income taxes — short-term	1,739	1,739
Tax refund receivable	1,522	1,623
Prepaid expenses and other	556	680
Total current assets	57,278	53,266
Property, Plant and Equipment, Net	38,340	41,192
Other Assets:		
Goodwill	157,624	157,292
Deferred financing costs	4,521	4,233
Deferred income taxes — long-term	7,209	7,209
Other	1,544	1,263
Total other assets	170,898	169,997
	<u>\$266,516</u>	<u>\$264,455</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt	\$ 2,957	\$ 2,218
Notes payable to banks	7,320	7,930
Accounts payable	22,882	20,949
Accrued expenses	11,686	10,856
Accrued interest	3,193	752
Accrued income taxes	2,083	1,959
Total current liabilities	50,121	44,664
Other Noncurrent Liabilities	3,831	4,061
Long Term Debt, Less Current Maturities	157,252	157,511
Shareholders' Equity:		
Capital stock \$.01 par value — authorized 1,000 shares, 100 shares issued	—	—
Additional paid-in capital	99,273	99,273
Retained deficit	(40,888)	(36,064)
Accumulated other comprehensive loss	(3,073)	(4,990)
Total shareholders' equity	55,312	58,219
	<u>\$266,516</u>	<u>\$264,455</u>

The accompanying notes are an integral part of these consolidated financial statements.

AMTROL INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(Unaudited — in Thousands)

	QUARTER ENDED		NINE MONTHS ENDED	
	September 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
Net sales	\$47,381	\$45,417	\$141,046	\$140,636
Cost of goods sold	35,881	34,418	107,967	108,770
Gross profit	11,500	10,999	33,079	31,866
Operating expenses:				
Selling, general and administrative	7,043	6,715	21,077	20,391
Amortization of goodwill	—	1,112	—	3,338
Income from operations	4,457	3,172	12,002	8,137
Other income (expense):				
Interest expense	(4,983)	(4,911)	(14,906)	(14,737)
Interest income	14	22	43	96
License and distributorship fees	—	73	40	219
Other, net	8	(255)	(668)	352
Loss before provision for income taxes	(504)	(1,899)	(3,489)	(5,933)
Provision (benefit) for income taxes	526	(311)	1,335	(595)
Net loss	<u>\$ (1,030)</u>	<u>\$ (1,588)</u>	<u>\$ (4,824)</u>	<u>\$ (5,338)</u>

The accompanying notes are an integral part of these consolidated financial statements.

AMTROL INC. AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
(Unaudited — in Thousands)

Nine Months Ended September 30, 2002

	Common Stock	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
Balance, December 31, 2001	\$—	\$99,273	\$(36,064)	\$(4,990)	\$ —
Net loss	—	—	(2,040)	—	(2,040)
Derivative instrument valuation adjustment	—	—	—	304	304
Currency translation adjustment	—	—	—	(262)	(262)
Balance, March 31, 2002	—	99,273	(38,104)	(4,948)	(1,998)
Net loss	—	—	(1,754)	—	(1,754)
Derivative instrument valuation adjustment	—	—	—	204	204
Currency translation adjustment	—	—	—	2,394	2,394
Balance, June 30, 2002	—	99,273	(39,858)	(2,350)	(1,154)
Net loss	—	—	(1,030)	—	(1,030)
Derivative instrument valuation adjustment	—	—	—	(407)	(407)
Currency translation adjustment	—	—	—	(316)	(316)
Balance, September 30, 2002	\$—	\$99,273	\$(40,888)	\$(3,073)	\$(2,907)

Nine Months Ended September 30, 2001

	Common Stock	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
Balance, December 31, 2000	\$ —	\$89,903	\$(26,649)	\$(3,382)	\$ —
Net loss	—	—	(2,455)	—	(2,455)
Repurchase of options and common stock	—	(141)	—	—	—
Derivative instrument valuation adjustment	—	—	—	(372)	(372)
Currency translation adjustment	—	—	—	(1,194)	(1,194)
Balance, March 31, 2001	—	89,762	(29,104)	(4,948)	(4,021)
Net loss	—	—	(1,295)	—	(1,295)
Repurchase of common stock	—	(100)	—	—	—
Derivative instrument valuation adjustment	—	—	—	(440)	(440)
Currency translation adjustment	—	—	—	31	31
Balance, June 30, 2001	—	89,662	(30,399)	(5,357)	(5,725)
Net loss	—	—	(1,588)	—	(1,588)
Repurchase of common stock	—	(33)	—	—	—
Issuance of common stock	—	6,000	—	—	—
Derivative instrument valuation adjustment	—	—	—	(265)	(265)
Currency translation adjustment	—	—	—	1,011	1,011
Balance, September 30, 2001	\$ —	\$95,629	\$(31,987)	\$(4,611)	\$(6,567)

The accompanying notes are an integral part of these consolidated financial statements.

AMTROL INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited — in thousands)

	NINE MONTHS ENDED	
	September 30, 2002	September 30, 2001
Cash Flows Provided by (Used in) Operating Activities:		
Net loss	\$ (4,824)	\$ (5,338)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities —		
Depreciation and amortization	6,622	10,388
Provision for losses on accounts receivable	95	116
Changes in operating assets and liabilities	320	(8,504)
Net cash provided by (used in) operating activities	2,213	(3,338)
Cash Flows Provided by (Used in) Investing Activities:		
Proceeds from sale of property, plant & equipment	—	70
Capital expenditures	(1,924)	(2,767)
Net cash (used in) investing activities	(1,924)	(2,697)
Cash Flows Provided by (Used in) Financing Activities:		
Repayment of debt	(113,505)	(54,669)
Issuance of debt	112,193	54,452
Proceeds from issuance of common stock	—	6,000
Repurchase of options and common stock	—	(274)
Net cash provided by (used in) financing activities	(1,312)	5,509
Net Decrease in Cash and Cash Equivalents	(1,023)	(526)
Effect of exchange rate changes on cash and cash equivalents	40	(20)
Cash and Cash Equivalents, beginning of period	983	704
Cash and Cash Equivalents, end of period	\$ —	\$ 158

The accompanying notes are an integral part of these consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

1. BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly, in accordance with generally accepted accounting principles and with the instructions to Form 10-Q and Article 10 of Regulation S-X, the financial position, results of operations and cash flows of AMTROL Inc. and its subsidiaries ("the Company") for the interim periods presented. Such adjustments consisted of only normal recurring items. The results of operations for the interim periods shown in this report are not necessarily indicative of results for any future interim period or for the entire year. These condensed consolidated financial statements do not include all disclosures associated with annual consolidated financial statements and accordingly should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K.

2. USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets on January 1, 2002. This statement addresses financial and reporting for goodwill and other intangible assets. Prior to January 1, 2002, generally accepted accounting principles required that goodwill be amortized over its useful life, not to exceed 40 years. SFAS No. 142 now requires that goodwill no longer be amortized. Instead, companies are required to apply a fair market value-based impairment test to its goodwill.

The Company has completed its fair market value-based impairment testing in accordance with the first phase impairment testing required by SFAS No. 142. The results of the impairment testing indicate that the goodwill on the Company's balance sheet may be impaired and that an impairment loss may need to be recognized. The second phase of SFAS No. 142 impairment testing, measurement of the impairment loss, is expected to be completed prior to the Company's fiscal year end. Any resulting impairment loss will be recognized as the cumulative effect of a change in accounting principle.

In addition, the Company adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets on January 1, 2002. This statement supersedes SFAS No.

121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of and APB No. 30, Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. SFAS No. 144 amends accounting and reporting standards for the disposal of segments of a business and the accounting for the impairment or disposal of long-lived assets. The adoption of SFAS No. 144 did not impact the Company's condensed consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

The Company adopted Staff Accounting Bulletin ("SAB") No. 101, Revenue Recognition in Financial Statements, as of January 1, 2001. In accordance with SAB No. 101, the Company recognizes revenue only when there is a valid contract or purchase order, which includes a fixed price; the goods have been delivered in accordance with the shipping terms; and there is an expectation that the collection of the revenue is reasonably assured. The cumulative effect of this adoption had no net effect on the accompanying consolidated statements of operations.

The Company generally recognizes revenue upon shipment of its products to customers. The Company classifies shipping/handling fees and costs to revenue consistent with the presentation required by Emerging Issues Task Force ("EITF") 00-10.

Deferred Financing Costs

Deferred financing costs are stated at cost as a component of other assets and are amortized over the life of the related debt using the effective interest method. Amortization of deferred financing costs is included in interest expense.

Foreign Currency Translation

Assets and liabilities of non-U.S. operations have been translated into United States dollars at the quarter-end rate of exchange. Shareholders' equity has been converted using historical rates while revenues and expenses have been converted at the average exchange rates prevailing during the three and nine month periods. The cumulative effect of the resulting translation was reflected as a separate component of shareholders' equity.

Recent Accounting Pronouncements

In July 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002 with early adoption

permitted. The Company is currently assessing the impact, if any, of adopting SFAS No. 143 on its consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies 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). SFAS No. 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred rather than when a company commits to such an activity and also establishes fair value as the objective for initial measurement of the liability. SFAS No. 146 will be adopted by the Company for exit or disposal activities that are initiated after December 31, 2002. The Company anticipates at this time that adoption of SFAS No. 146 will not have a material impact on the consolidated financial statements of the Company.

5. Long-Term Debt

Revolving Credit and Term Loans

The Company, on December 26, 2001, completed a refinancing of its senior secured credit facility. In its place, the Company entered into two new credit facilities: a \$42.5 million senior first-priority secured credit facility arranged by Foothill Capital Corporation (the "Foothill Facility") and a \$25.0 million senior second-priority secured credit facility with affiliates of The Cypress Group L.L.C. (the "Cypress Facility"). Proceeds from the refinancing were used to repay in full the Company's existing credit facility and to pay fees and expenses related to the refinancing.

The Foothill Facility consists of senior term loans (the "Term Loans") and a revolving credit facility (the "Revolving Credit Facility") which are secured by a first priority lien on all the domestic assets of the Company and a stock pledge of all its subsidiaries. A portion of the Term Loans (the "Term Loan A") had an original principal balance of \$10.2 million and a remaining principal balance of \$9.4 million as of September 30, 2002. The remaining portion of the Term Loans (the "Term Loan B") had an original principal balance of \$7.5 million and a remaining principal balance of \$6.9 million as of September 30, 2002. Aggregate borrowings under the Revolving Credit Facility are limited to the lesser of (a) \$35.0 million less the aggregate outstanding principal amount of the Term Loan A less letter of credit usage and (b) the borrowing base less letter of credit usage. At September 30, 2002, total availability and aggregate borrowings under the Revolving Credit Facility were \$13.4 million and \$8.9 million, respectively.

Term Loan A has a five-year maturity with quarterly principal payments of \$426,757, which commenced on April 1, 2002. The outstanding unpaid principal shall be due and payable on the date of termination of the Foothill Facility, whether by its terms, by prepayment, or by acceleration and bears interest at LIBOR plus 3.5%, paid monthly. Term Loan B has a three-year maturity with quarterly principal payments of \$312,500, which commenced on April 1, 2002. The outstanding unpaid principal shall be due and payable on the date of termination of the Foothill Facility, whether by its terms, by prepayment, or by acceleration and bears interest at the greater of the Wells Fargo

Reference Rate (approximates the prime rate) plus 3.5% or 9.25%, paid monthly. The Revolving Credit Facility has a five-year maturity. Amounts borrowed under the Revolving Credit Facility may be repaid and reborrowed at any time during the term of the Foothill Facility and bear interest at LIBOR plus 2.5% for LIBOR based borrowings and the Wells Fargo Reference Rate plus 0.5% for non-LIBOR based borrowings. The Foothill Facility contains certain affirmative and negative covenants and restrictions. As of September 30, 2002, the Company was in compliance with the various covenants of the Foothill Facility.

The Cypress Facility consists of a single \$25.0 million term loan (the "Term Loan C"). Term Loan C has a five-year maturity and bears Pay-In-Kind (PIK) interest fixed at 12% per annum paid quarterly, which at the lenders option can be paid in common stock of the Company. In connection with the Cypress Facility, Amtrol Holdings, Inc., which wholly owns the Company, issued the lenders under the Cypress Facility 60,000 warrants to purchase approximately 5.2% of its common stock on a fully diluted basis. The 60,000 warrants, which have an exercise price of \$.01, were valued at \$3.4 million using the Black-Scholes model. This amount was recorded as an offset to the Term Loan C debt and included in the Company's equity section. This discount is being accreted to the face value of the Term Loan C over the life of the Cypress Facility. The Company expects that the effective interest rate associated with the Term Loan C will be greater than 12% given the additional compensation associated with the issuance of the warrants. The Cypress Facility contains certain affirmative and negative covenants and restrictions. As of September 30, 2002, the Company was in compliance with the various covenants of the Cypress Facility.

Senior Subordinated Notes

The Company issued \$115.0 million of Senior Subordinated Notes due 2006 (the "Notes"). The Notes are unsecured obligations of the Company. The Notes bear interest at a rate of 10.625% per annum that is payable semi-annually on each June 30 and December 31.

The Notes became redeemable at the option of the Company on December 31, 2001. The Notes are subject to redemption, in whole or in part, at various redemption prices, declining from 105.313% of the principal amount to par on December 31, 2003. Upon a "Change of Control" (as defined in the Indenture), each Note holder has the right to require the Company to repurchase such holder's Notes at a purchase price of 101% of the principal amount plus accrued interest.

The Notes Indenture contains certain affirmative and negative covenants and restrictions. As of September 30, 2002, the Company was in compliance with the various covenants.

The Company and/or affiliates of the Company, including entities related to Cypress may, from time to time, purchase the Notes previously issued by the Company in the open market or by other means.

6. Inventories

Inventories are stated at the lower of cost or market and were as follows (in thousands):

	SEPTEMBER 30, 2002	DECEMBER 31, 2001
Raw materials and work in process	\$13,197	\$11,120
Finished goods	10,238	8,665
	<u>\$23,435</u>	<u>\$19,785</u>

7. Accounting for Derivative Instruments and Hedging Activities

Effective January 1, 2001, the Company adopted SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities, SFAS No. 137 Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133 — an Amendment of FASB Statement No. 133 and SFAS No. 138 Accounting for Certain Derivative Instruments and Certain Hedging Activities — an Amendment of FASB Statement No. 133 (collectively SFAS No. 133 as amended). SFAS No. 133 as amended is required to be adopted no later than the beginning of the first fiscal year beginning on or after June 15, 2000. These standards are to be adopted as a change in accounting principle and cannot be applied retroactively to financial statements of prior periods.

The Company has one derivative contract consisting of an interest rate swap contract and an interest rate cap (the “Contract”) outstanding as of September 30, 2002, with an initial notional amount of \$15 million. Under this arrangement, which will mature on June 30, 2004, the Company receives the 90-day LIBOR rate and pays a fixed rate of 4.60% for the period from March 31, 2002 through maturity, unless LIBOR increases to 7.1%. If LIBOR increases to 7.1%, then the Company continues to receive the 90-day LIBOR rate but now pays the 90-day LIBOR rate for all subsequent periods capped at a maximum of 7.1%. The LIBOR rate has not exceeded 7.1% since inception of the Contract and it was treated, prior to adoption of SFAS No. 133, as a hedge agreement and accounted for as such. As a result of the refinancing of its senior debt with the Foothill Facility, the Contract was redesignated as a cash flow hedge of variable future cash flows associated with the Foothill Facility Term Loan A and Term Loan B Debt.

As of September 30, 2002, the fair value of the instrument (\$0.4 million) was recorded in other noncurrent liabilities with a corresponding entry to accumulated other comprehensive loss. Subsequent changes in the fair value of the swap will be recorded through accumulated other comprehensive loss (except for changes related to ineffectiveness, which will be recorded through net income). The Company did not realize any material ineffectiveness during the current quarter and does not anticipate any material ineffectiveness under the hedge for the remainder of 2002.

8. PROVISION FOR INCOME TAXES

The effective income tax rates used in the interim condensed financial statements are estimates of the full year's rates. The provision for income taxes recorded in the financial statements differs from the statutory rate principally due to management's decision to discontinue the recognition of tax benefits associated with losses generated by the US operations. Net deferred tax assets recognized on the Company's balance sheet continue to require management's evaluation as to their realization. Although realization is not assured, management believes it is more likely than not that the net deferred tax assets will be realized. The amount realized is based upon estimates derived from tax planning strategies which the Company believes is currently prudent and feasible. Additions to the valuation allowance may be required in the event that estimates are changed.

9. BUSINESS SEGMENT INFORMATION

The Company adopted SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information, in 1998. The Company's reportable segments are delineated geographically. In addition to the geographic delineation, the segments are managed separately because of their different product offerings, markets served and cost structures.

The Company's North American segment operates manufacturing facilities in Rhode Island, Kentucky, Maryland and Ohio, and operates a distribution facility in Ontario, Canada. This segment manufactures and markets products used principally in flow control, storage, heating and other treatment of fluids in the water system and HVAC markets. These products are marketed throughout the world but primarily in North America, Western Europe, Asia and Mexico.

The Company's European segment includes the Company's facilities in Guimaraes, Portugal, Donaueschingen, Germany and Swarzedz, Poland. The Guimaraes facility manufactures returnable and non-returnable steel gas cylinders for storing cooking, heating and refrigerant gases that are marketed worldwide. The Donaueschingen facility manufactures residential and commercial water heaters marketed primarily in Switzerland, Austria and Germany. The Swarzedz facility refurbishes gas cylinders.

The primary criteria by which financial performance is evaluated and resources are allocated include net sales and EBITDA. The following is a summary of key financial data by segment:

	Quarter Ended		Nine Months Ended	
	September 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
NET SALES TO EXTERNAL CUSTOMERS				
North America				
US	\$30,315	\$30,488	\$ 90,318	\$ 91,101
Other	1,451	1,448	4,026	4,153
Europe				
Portugal	13,084	11,019	39,946	37,274
Other	2,531	2,462	6,756	8,108
Consolidated	<u>\$47,381</u>	<u>\$45,417</u>	<u>\$141,046</u>	<u>\$140,636</u>
INCOME FROM OPERATIONS				
North America	\$ 3,310	\$ 2,319	\$ 8,724	\$ 5,051
Europe	1,147	853	3,278	3,086
Consolidated	<u>\$ 4,457</u>	<u>\$ 3,172</u>	<u>\$ 12,002</u>	<u>\$ 8,137</u>
EBITDA				
North America	\$ 4,528	\$ 4,845	\$ 12,497	\$ 12,715
Europe	1,895	1,290	4,864	5,620
Consolidated	<u>\$ 6,423</u>	<u>\$ 6,135</u>	<u>\$ 17,361</u>	<u>\$ 18,335</u>
		September 30, 2002	December 31, 2001	
LONG-LIVED ASSETS				
North America				
US		\$154,583	\$156,998	
Other		6	9	
Europe				
Portugal		31,866	32,304	
Other		9,509	9,173	
Consolidated		<u>\$195,964</u>	<u>\$198,484</u>	

Income from operations for the North America business segment above is reduced by goodwill amortization for 2001. EBITDA is earnings (net income/loss) before interest, taxes, depreciation and amortization. The method of calculating EBITDA is consistent with the definition contained in the Foothill Facility, Cypress Facility and the Notes. Readers of financial statements frequently consider EBITDA a useful tool in evaluating a company's performance. Therefore, the Company believes that inclusion of EBITDA is useful supplemental information. However, EBITDA is not a measure of true cash flow since it does not incorporate changes of other assets or liabilities that may generate or require cash. EBITDA is not a generally accepted accounting measure. Long-Lived assets include property, plant and equipment and goodwill.

10. Commitments and Contingencies

At September 30, 2002, the Foothill Facility contained a sublimit to support the issuance of letters of credit in the amount of \$3.0 million. At September 30, 2002, letters of credit outstanding amounted to \$0.7 million.

The Company is involved in various legal proceedings that, in the opinion of management, will not result in a material adverse effect on its financial condition or results of operations.

AMTROL INC. AND SUBSIDIARIES

Item 2.

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

Overview

This section should be read in conjunction with the condensed Consolidated Financial Statements of the Company included elsewhere herein and the Company's Form 10-K for 2001.

The Company and its subsidiaries and their representatives may from time to time make written or oral statements, including statements contained in the Company's filings with the Securities and Exchange Commission ("SEC") and in its reporting to customers, which constitute or contain "forward-looking" statements as that term is defined in the Private Securities Litigation Reform Act of 1995 or the SEC in its rules, regulations and releases.

All statements other than statements of historical fact included in this Form 10-Q and elsewhere relating to the Company's financial position, strategic initiatives and statements addressing industry developments are forward-looking statements. When incorporated in this discussion, the words "expect(s)", "feel(s)", "believe(s)", "anticipate(s)" and similar expressions are intended to identify some of these forward-looking statements. Forward-looking statements include those containing these phrases but also any other statements that are not references to historical fact. Although the Company believes that the expectations reflected in such forward-looking statements are expressed in good faith and are believed to have a reasonable basis, there can be no assurance that such expectations or beliefs will result or be achieved or accomplished. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The following are some of the important factors that can vary or change or involve substantial risk and cause actual results to differ materially from such expectations: the Company's ability to successfully implement its business strategy; the availability and cost of raw materials; changes in domestic or foreign government regulation or enforcement policies, particularly related to refrigerant gases or cylinders and building and energy efficiency requirements or restrictions or limitations or general reduction in the use of domestic wells; significant weather conditions adverse to the Company's business; development of competing technologies; acceptance of the Company's existing and planned new products in

international markets; competition in the Company's markets, particularly price competition; the rate of growth of developing economies and demand for the Company's products; the ultimate cost of future warranty and other claims relating to the Company's products and business; whether the Company succeeds in acquiring new businesses; availability of capital; foreign exchange rates; increases in interest rates; the business abilities and judgment of personnel; general economic, financial and business conditions, both domestically and internationally; and acts of war and terrorist activities.

Results of Operations

The following table sets forth, for the periods indicated, the percentages of the Company's net sales represented by certain income and expense items in the Company's Consolidated Statements of Operations.

	QUARTER ENDED		NINE MONTHS ENDED	
	September 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	75.7	75.8	76.5	77.3
Gross profit	24.3	24.2	23.5	22.7
Selling, general and administrative expenses	14.9	14.8	14.9	14.5
Amortization of goodwill	—	2.4	—	2.4
Income from operations	9.4	7.0	8.6	5.8
Interest expense	(10.5)	(10.8)	(10.6)	(10.5)
Interest income	—	—	—	0.1
Other income (expense), net	—	(0.4)	(0.4)	0.4
Loss before provision for income taxes	(1.1)	(4.2)	(2.4)	(4.2)
Provision (benefit) for income taxes	1.1	(0.7)	1.0	(0.4)
Net loss	(2.2)%	(3.5)%	(3.4)%	(3.8)%

Three Months Ended September 30, 2002

Net sales for the current quarter increased \$2.0 million or 4.3% compared to the third quarter of 2001, reflecting sales growth in Europe, as well as the impact of the strengthening Euro on the translation of results at the Company's European operations.

In North America, net sales in the third quarter of 2002 were comparable to third quarter net sales of 2001. Net sales from the Company's European operations increased \$2.1 million or 15.8% in the third quarter of 2002 compared to the third quarter last year due primarily to the strengthening of the

Euro versus the U.S. dollar and the addition of a major new customer. The strengthening of the Euro contributed approximately \$1.6 million to the increase in net sales.

In order to mitigate any impact on its North America net sales from domestic steel industry capacity shortfalls and imposition of tariffs on imported steel by the U.S. government in March of 2002, the Company implemented an expanded resourcing program to safeguard its supply of steel. The Company believes that this resourcing program has been successful.

Gross profit for the third quarter of 2002 increased \$0.5 million or 4.6% compared to the third quarter of 2001, due principally to increased volumes in the Company's European operations. As a percentage of net sales, gross profit increased to 24.3% in the third quarter of 2002 versus 24.2% in the same period last year.

Selling, General and Administrative expenses for the current quarter of 2002 of \$7.0 million increased \$0.3 million or 4.9% compared to the third quarter of 2001. The increase is principally the result of increased European selling expenses associated with the increase in sales.

Income taxes during the current quarter of 2002 increased \$0.8 million as compared to 2001. The increase was the result of management's decision to discontinue the recognition of tax benefits associated with pre-tax losses from its U.S. operations.

Other income, net increased \$0.3 million when compared to 2001. During 2001, currency exchange losses of \$0.3 million were recorded by the Company's European operations as a result of the strengthening of the Euro versus the U.S. dollar.

The net loss for the current quarter of 2002 of \$1.0 million compares favorably to a net loss in the third quarter of 2001 of \$1.6 million, an absolute change of \$0.6 million.

Earnings before interest expense, taxes, depreciation and amortization (EBITDA) for the third quarter of 2002 increased \$0.3 million to \$6.4 million from \$6.1 million in the third quarter of 2001 principally as a result of currency exchange losses incurred by the Company's European operations during 2001.

Nine Months Ended September 30, 2002

Net sales for the first nine months of 2002 increased \$0.4 million or 0.3% as compared to the first nine months of 2001. In North America, net sales declined \$0.9 million or 1.0% due to weaker first quarter results in comparison to 2001, offset by improved sales performance in the second quarter. Net sales in Europe increased \$1.3 million or 2.9% compared to the first nine months of 2001 due to weaker first quarter results in comparison to 2001, offset by stronger sales performance in the second and third quarters and a strengthening Euro.

Gross profit for the first nine months of 2002 increased by \$1.2 million or 3.8% as compared to the same period in 2001. Gross profit as a percentage to net sales increased to 23.5% in 2002 from 22.7% in 2001. Manufacturing efficiency improvements, lower energy costs and lower commodity costs contributed to the increase in gross profit and gross profit percentage.

Selling, General and Administrative expenses for the first nine months of 2002 of \$21.1 million increased by \$0.7 million or 3.4% compared to the first nine months of 2001. The increase is principally attributable to one-time compensation costs incurred during the second quarter of 2002.

Other income, net decreased \$1.0 million in comparison to 2001. Currency exchange losses of \$0.7 million were recorded by the Company's European operations as a result of the

strengthening of the Euro during 2002. In contrast, during the first nine months of 2001, the Company recorded currency exchange gains of \$0.1 million.

Income taxes during the first nine months of 2002 increased \$1.9 million as compared to 2001. The increase was the result of management's decision to discontinue the recognition of tax benefits associated with pre-tax losses from its U.S. operations.

The net loss for the first nine months of 2002 of \$4.8 million compares favorably to a net loss for the first nine months of 2001 of \$5.3 million, an absolute change of \$0.5 million.

Earnings before interest expense, taxes, depreciation and amortization (EBITDA) for the first nine months of 2002 decreased \$0.9 million to \$17.4 million, compared to \$18.3 million for the first nine months of 2001 principally as a result of currency exchange losses and one-time compensation costs offset by manufacturing efficiency improvements and higher European gross profit.

Liquidity and Capital Resources

The Company's operating working capital (defined as accounts receivable and inventory, less accounts payable) increased \$3.3 million from \$27.3 million at December 31, 2001 to \$30.6 million at September 30, 2002. Accounts receivable and inventories increased \$1.6 million and \$3.6 million, respectively while accounts payable increased \$1.9 million, all consistent with seasonal operating requirements of the Company's water systems and plumbing/heating product lines.

For the first nine months of 2002, net cash provided by operating activities of \$2.2 million was \$5.6 million higher than the first nine months of 2001 due principally to an improved working capital position and lower cash interest expense. Capital expenditures of \$1.9 million in the first nine months of 2002 were \$0.8 million lower than in 2001. The Company funded these requirements principally by utilizing its credit facilities including the Revolving Credit Facility described below. As a result of the net cash provided by operating activities, the Company was able to pay down its debt by \$1.3 million during 2002.

The Company, on December 26, 2001 completed a refinancing of its senior secured credit facility. In its place, the Company entered into two new credit facilities: a \$42.5 million senior first-priority secured credit facility arranged by Foothill Capital Corporation (the "Foothill Facility") and a \$25.0 million senior second-priority secured credit facility with affiliates of The Cypress Group L.L.C. (the "Cypress Facility"). Proceeds from the refinancing were used to repay in full the Company's existing credit facility and to pay fees and expenses related to the refinancing.

The Foothill Facility consists of senior term loans (the "Term Loans") and a revolving credit facility (the "Revolving Credit Facility") which are secured by a first priority lien on all of the domestic assets of the Company and a stock pledge of all of its subsidiaries. A portion of the Term Loans (the "Term Loan A") had an original principal balance of \$10.2 million and a remaining principal balance of \$9.4 million as of September 30, 2002. The remaining portion of the Term Loans (the "Term Loan B") had an original principal balance of \$7.5 million and a remaining principal balance of \$6.9 million as of September 30, 2002. Aggregate borrowings under the Revolving Credit Facility are limited to the lesser of (a) \$35.0 million less the

aggregate outstanding principal amount of the Term Loan A less letter of credit usage, and (b) the borrowing base less letter of credit usage. At September 30, 2002, total availability and aggregate borrowings under the Revolving Credit Facility were \$13.4 million and \$8.9 million, respectively.

Term Loan A has a five-year maturity with quarterly principal payments of \$426,757 that commenced on April 1, 2002. The outstanding unpaid principal shall be due and payable on the date of termination of the Foothill Facility, whether by its terms, by prepayment, or by acceleration and bears interest at LIBOR plus 3.5%, paid monthly. Term Loan B has a three-year maturity with quarterly principal payments of \$312,500 that commenced on April 1, 2002. The outstanding unpaid principal shall be due and payable on the date of termination of the Foothill Facility, whether by its terms, by prepayment, or by acceleration and bears interest at the greater of the Wells Fargo Reference Rate (approximates the prime rate) plus 3.5% or 9.25%, paid monthly. The Revolving Credit Facility has a five-year maturity. Amounts borrowed under the Revolving Credit Facility may be repaid and reborrowed at any time during the term of the Foothill Facility and bear interest at LIBOR plus 2.5% for LIBOR based borrowings and the Wells Fargo Reference Rate plus 0.5% for non-LIBOR based borrowings. The Foothill Facility contains certain affirmative and negative covenants and restrictions. As of September 30, 2002, the Company was in compliance with the various covenants of the Foothill Facility.

The Cypress Facility consists of a single \$25.0 million term loan (the "Term Loan C"). Term Loan C has a five-year maturity and bears Pay-In-Kind (PIK) interest fixed at 12% per annum paid quarterly, which at the lenders option can be paid in common stock of the Company. In connection with the Cypress Facility, Amtrol Holdings, Inc., which wholly owns the Company, issued the lenders under the Cypress Facility 60,000 warrants to purchase approximately 5.2% of its common stock on a fully diluted basis. The 60,000 warrants, which have an exercise price of \$.01, were valued at \$3.4 million using the Black-Scholes model. This amount was recorded as an offset to the Term Loan C debt and included in the Company's equity section. This discount is being accreted to the face value of the Term Loan C over the life of the agreement. The Company expects that the effective interest rate associated with the Term Loan C will be greater than 12% given the additional compensation associated with the issuance of the warrants. The Cypress Facility contains certain affirmative and negative covenants and restrictions. As of September 30, 2002, the Company was in compliance with the various covenants of the Cypress Facility.

In November 1996, the Company issued, under an Indenture, \$115.0 million of Senior Subordinated Notes due 2006 (the "Notes"). The Notes are unsecured obligations of the Company. The Notes bear interest at the rate of 10.625% per annum payable semi-annually on each June 30 and December 31 commencing on June 30, 1997. The Notes became redeemable at the option of the Company on December 31, 2001. From and after December 31, 2001, the Notes are subject to redemption at the option of the Company, in whole or in part, at various redemption prices, declining from 105.313% of the principal amount to par on December 31, 2003. Upon a "Change of Control" (as defined in the Indenture), each Note holder has the right to require the Company to repurchase such holder's Notes at a purchase price of 101% of the principal amount plus accrued interest. The Notes Indenture contains certain affirmative and negative covenants and restrictions. As of September 30, 2002, the Company is in compliance with the various covenants.

The Company intends to fund its future working capital, capital expenditures and debt service requirements through cash flows generated from operations and borrowings under the Revolving

Credit Facility. Management believes that cash generated from operations, together with borrowings available under the Revolving Credit Facility, will be sufficient to meet the Company's working capital and capital expenditure needs in the foreseeable future. The Company may consider other options available to it in connection with funding future working capital and capital expenditure needs, including the issuance of additional debt and equity securities.

The Company and/or affiliates of the Company, including entities related to Cypress may, from time to time, depending on market conditions, purchase the Senior Subordinated Notes previously issued by the Company in the open market or by other means.

The Company will continue to selectively pursue strategic acquisitions, such as the acquisitions of AMTROL ALFA and AMTROL NOVA. The Company believes that strategic acquisitions, both domestic and international, provide an effective means of increasing or establishing a market presence in targeted markets and a means of identifying and introducing new products and technologies in markets where it already has a strong presence. The Company also believes that establishing local manufacturing and distribution facilities in international markets significantly enhances its ability to build strong customer relationships, understand local product preferences and be price competitive.

Inflation

The Company believes that anticipated inflation rates would not have a materially adverse effect on its results of operations or its financial condition in 2002. However, there can be no assurance that sharply increasing raw material or fuel costs will not adversely affect the Company's financial condition or results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in information relating to market risk since the Company's disclosure included in Item 7A of SEC Form 10-K as filed with the SEC on March 29, 2002.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Within the 90 day period prior to the filing date of this Quarterly Report on Form 10-Q, the Company, under the supervision and with the participation of its management, including its principal executive officer and principal financial officer, performed an evaluation of the Company's disclosure controls and procedures, as required by Securities Exchange Act Rule 13a-15. Based on that evaluation, the Company's principal executive officer and principal financial officer concluded that such disclosure controls and procedures are effective to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to them, particularly during the period for which the periodic reports are being prepared.

Changes in Internal Controls

No significant changes were made in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation performed pursuant to Securities Exchange Act Rule 13a-15.

PART II

Item 1. Legal Proceedings

No material legal proceedings were terminated or filed against the Company during the period covered by this report.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

Exhibits

None.

Reports on Form 8-K

On August 14, 2002, the Company filed a Current Report on a Form 8-K reporting under Item 9 — Regulation FD Disclosure, in connection with required certifications by its Chief Executive and Chief Financial Officers pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Signatures

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.

Date: November 13, 2002

AMTROL INC.

By: /s/ Albert D. Indelicato

Albert D. Indelicato,
President, Chairman of the Board,
Chief Executive Officer and Director

Date: November 13, 2002

By: /s/ Larry T. Guillemette

Larry T. Guillemette,
Executive Vice President,
Chief Financial Officer and
Treasurer

CERTIFICATIONS

I, Albert D. Indelicato, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AMTROL Inc;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:
 - a. Designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and
6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

By: /s/ Albert D. Indelicato

Albert D. Indelicato
President, Chairman of the Board
Chief Executive Officer and
Director

CERTIFICATIONS

I, Larry T. Guillemette, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AMTROL Inc;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:
 - a. Designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and
6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

By: /s/ Larry T. Guillemette

Larry T. Guillemette
Executive Vice President,
Chief Financial Officer and Treasurer