JPS INDUSTRIES INC
Form 10-Q
March 07, 2002

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended January 26, 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 33-27038

JPS INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	57-0868166
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

555 North Pleasantburg Drive, Suite 202, Greenville, South Carolina	29607
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number (864) 239-3900

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 9,271,756 shares of the Company's Common Stock were outstanding as of March 7, 2002.

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Item 1. Financial Statements

JPS INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS
(In Thousands)

	January 26, 2002 (Unaudited)
ASSETS	
Current assets:	
Cash	$
Accounts receivable	17,1
Inventories (Note 2)	17,6
Prepaid expenses and other (Note 4)	3,2
Total current assets	38,0
Property, plant and equipment, net	42,2
Other assets	22,2
Total assets	$ 102,5

LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 6,4
Accrued interest	
Accrued salaries, benefits and withholdings	2,1
Other accrued expenses	3,0
Current portion of long-term debt (Note 3)	6
Total current liabilities	12,2
Long-term debt (Note 3)	16,9
Deferred revenue and postemployment liabilities	18,4
Total liabilities	47,7
Shareholders' equity:	
Common stock - $.01 par value; authorized - 22,000,000 shares; issued - 10,000,000 shares; outstanding - 9,271,756 shares	1
Additional paid-in capital	124,1
Treasury stock (at cost) - 728,244 shares	(2,8
Accumulated deficit	(66,6
Total shareholders' equity	54,8
Total liabilities and shareholders' equity	$ 102,5

Note: The condensed consolidated balance sheet at October 27, 2001 has been extracted from the audited financial statements.

See notes to consolidated financial statements.

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JPS INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in Thousands Except Per Share Data)
(Unaudited)

	Three
	January 26, 2002
Net sales	$ 27,1
Cost of sales	22,8
Gross profit	4,2

Selling, general and administrative expenses	4,8
Other expense (income), net	
Operating profit (loss)	(5
Interest expense	2
Income (loss) before income taxes	(7
Income taxes (benefit)	(2
Net income (loss)	$ (4
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	
Basic	9,271,7
Diluted	9,271,7
Basic earnings (loss) per common share	$ (0.
Diluted earnings (loss) per common share	$ (0.

See notes to condensed consolidated financial statements.

JPS INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(Unaudited)

	Three
	January 26, 2002
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income (loss)	$ (4
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:	
Depreciation and amortization	1,4
Amortization of deferred financing costs	
Deferred income tax benefit	(2
Changes in assets and liabilities:	

Accounts receivable	4,5
Inventories	7
Prepaid expenses and other assets	3
Accounts payable	(4,0
Accrued expenses and other liabilities	(7
Other, net	2
Total adjustments	2,1
Net cash provided by operating activities	1,7
CASH FLOWS FROM INVESTING ACTIVITIES	
Property and equipment additions	
Proceeds from assets held for sale	
Net cash provided by (used in) investing activities	
CASH FLOWS FROM FINANCING ACTIVITIES	
Financing costs incurred	
Purchase of treasury stock	
Net proceeds from exercise of stock options	
Revolving credit facility borrowings (repayments), net	(2,1
Repayment of other long-term debt	(1
Net cash used in financing activities	(2,2
NET DECREASE IN CASH	(5
CASH AT BEGINNING OF PERIOD	5
CASH AT END OF PERIOD	$
SUPPLEMENTAL INFORMATION ON CASH FLOWS:	
Interest paid	$ 2
Income taxes paid, net	1

See notes to consolidated financial statements.

JPS INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

Unless the context otherwise requires, the terms "JPS" and the "Company", as used in these condensed consolidated financial statements, mean JPS Industries, Inc. and JPS Industries, Inc. together with its subsidiaries, respectively.

The Company has prepared, without audit, the interim condensed consolidated financial statements and related notes. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at January 26, 2002 and for all periods presented have been made.

The preparation of 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 financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended October 27, 2001 ("Fiscal 2001"). The results of operations for the interim period are not necessarily indicative of the operating results for the full year.

2. Inventories (in thousands):

	January 26, 2002	October 27, 2001
Raw materials and supplies	$ 3,310	$ 3,415
Work-in-process	4,177	4,662
Finished goods	10,178	10,362
Total	$ 17,665	$ 18,439

3. Long-Term Debt (in thousands):

	January 26, 2002	October 27, 2001
Senior credit facility, revolving line of credit	$ 14,624	$ 16,752
Capital lease obligation	3,005	3,155
Total	17,629	19,907
Less current portion	(632)	(620)
Long-term portion	$ 16,997	$ 19,287

On May 9, 2001, the Company replaced the existing syndicated senior revolving credit facility with a new Revolving Credit and Security Agreement with First Union National Bank. The new facility provides for a revolving credit loan facility and letters of credit ("the Revolving Credit Facility") in a maximum principal amount equal to the lesser of (a) $35 million or (b) a specified borrowing base (the "Borrowing Base"), which is based upon eligible receivables, eligible inventory, and a specified dollar amount (currently $ 9.4 million subject to reduction). The Revolving Credit Facility restricts investments, acquisitions, and dividends. The

Credit Agreement contains financial covenants relating to minimum levels of net worth, as defined, and a minimum debt to EBITDA ratio, as defined. The Company is currently in compliance with all of the restrictions and covenants of its new Revolving Credit Facility. All loans outstanding under the Revolving Credit Facility bear interest at the 30-day LIBOR rate plus an applicable margin (the "Applicable Margin") based upon the Company's debt to EBITDA ratio. As of January 26, 2002, the Company's interest rate under the Revolving Credit Facility was 3.1%.

As of January 26, 2002, unused and outstanding letters of credit totaled $0.6 million. The outstanding letters of credit reduce the funds available under the Revolving Credit Facility. At January 26, 2002, the Company had approximately $15.4 million available for borrowing under the Revolving Credit Facility.

4. Contingencies

At January 26, 2002, the Company had regular federal net operating loss carryforwards for tax purposes of approximately $89.0 million. The net operating loss carryforwards expire in years 2003 through 2020. The Company also has federal alternative minimum tax net operating loss carryforwards of approximately $105.0 million which expire in 2004 through 2020. Alternative minimum tax credits of $1.8 million that can be carried forward indefinitely and used as a credit against regular federal taxes, subject to limitation.

The Company's future ability to utilize a portion of its net operating loss carryforwards is limited under the income tax laws as a result of being treated as having a change in the ownership of the Company's stock as of December 2000 under Federal income tax laws. The effect of such an ownership change is to limit the annual utilization of the net operating loss carryforwards to an amount equal to the value of the Company immediately after the time of the change (subject to certain adjustments) multiplied by the Federal long-term tax exempt rate. Based on the expiration dates for the loss carryforwards and fair market value at the time of ownership change, the Company does not believe that the limitations imposed as a result of prior ownership changes will result in any Federal loss carryforward expiring unutilized. Uncertainties surrounding income tax law changes, shifts in operations between state taxing jurisdictions and future operating income levels may, however, affect the ultimate realization of all or some portion of these deferred income tax assets. In addition, a future change in ownership could result in additional limitations on the ability of the Company to utilize its net operating loss carryforwards. Under applicable accounting guidelines, these future uncertainties, combined with factors giving rise to losses, requires a valuation allowance be recognized.

The Company is exposed to a number of asserted and unasserted potential claims encountered in the normal course of business including certain asbestos-based claims. Except as discussed below, management believes that none of this litigation, if determined unfavorable to the Company, would have a material adverse effect on the financial condition or results of operations of the Company.

In June 1997, Sears Roebuck and Co. ("Sears") filed a multi-count complaint against Elastomerics and two other defendants alleging an unspecified amount of damages in connection with the alleged premature deterioration of the Company's Hypalon roofing membrane installed during the 1980's on approximately 140 Sears stores. No trial date has been established. The Company believes it has meritorious defenses to the claims and intends to defend the lawsuit vigorously. Management, however, cannot determine the outcome of the lawsuit or estimate the range of loss, if any, that may occur. Accordingly, no provision has been made for any loss which may result. An unfavorable resolution of the actions could have a material adverse effect on the business, results of operations or financial condition of the Company if not covered by insurance.

5. Business Segments

The Company's reportable segments are JPS Elastomerics and JPS Glass. The reportable segments were determined using the Company's method of internal reporting, which divides and analyzes the business by the

nature of the products manufactured and sold, the customer base, manufacturing process, and method of distribution. The Elastomerics segment principally manufactures and markets extruded products including high performance roofing products, environmental geomembranes, and various polyurethane products. The Glass segment produces and markets specialty substrates mechanically formed from fiberglass and other specialty materials for a variety of applications such as printed circuit boards, filtration, advanced composites, building products, defense, and aerospace.

The Company evaluates the performance of its reportable segments and allocates resources principally based on the segment's operating profit, defined as earnings before interest and taxes. Indirect corporate expenses allocated to each business segment are based on management's analysis of the costs attributable to each segment. The following table presents certain information regarding the business segments (in thousands):

	Three Months Ended	
	January 26, 2002	January 27, 2001
Net sales:		
Elastomerics	$ 15,839	$ 18,976
Glass	11,292	19,657
Net sales	$ 27,131	$ 38,633
Operating profit (loss) (1):		
Elastomerics	$ (289)	$ 947
Glass	(225)	2,032
Operating profit (loss)	(514)	2,979
Interest expense	215	851
Income (loss) before income taxes	$ (729)	$ 2,128

	January 26, 2002	October 27, 2001
Identifiable assets:		
Elastomerics	$ 50,091	$ 54,684
Glass	52,420	55,221
Total assets	$ 102,511	$ 109,905

(1) The operating profit of each business segment includes a proportionate share of indirect corporate expenses. The Company's corporate group is responsible for finance, strategic planning, legal, tax, and regulatory affairs for the business segments. Such expense consists primarily of salaries and employee benefits, professional fees, and amortization of Reorganization Value in Fiscal 2001.

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

The statements contained in this quarterly report on Form 10-Q that are not historical facts are forward-looking statements subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. The Company cautions readers of this quarterly report on Form 10-Q that a number of important factors could cause the Company's actual results in Fiscal 2002 and beyond to differ materially from those expressed in any such forward-looking statements. These factors include, without limitation, the general economic and business conditions affecting manufacturing businesses, actions of a variety of domestic and foreign competitors, changes in demand in the primary markets of JPS, the seasonality of the Company's sales, changes in the Company's costs of claims, raw materials and energy, and the Company's dependence on key personnel.

The following should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing in the Company's Annual Report on Form 10-K for the fiscal year ended October 27, 2001.

	(In Thousands) Three Months Ended	
	January 26, 2002	January 27, 2001
Net sales:		
Elastomerics	$ 15,839	$ 18,976
Glass	11,292	19,657
Net sales	$ 27,131	$ 38,633
Operating profit (loss):		
Elastomerics	$ (289)	$ 947
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RESULTS OF OPERATIONS

Introduction

The Company has repositioned itself from one that was largely textile-oriented to a diversified manufacturing and marketing company that is focused on a broad array of industrial applications.

Three Months Ended January 26, 2002 (the "2002 First Quarter") Compared to the Three Months Ended January 27, 2001 (the "2001 First Quarter")

Consolidated net sales decreased $11.5 million, or 29.8%, from $38.6 million in the 2001 first quarter to $27.1 million in the 2002 first quarter. Operating profit decreased $3.5 million from $3.0 million in the 2001 first quarter to a loss of $0.5 million in the 2002 first quarter.

Net sales in the 2002 first quarter in the Elastomerics segment, which includes single-ply roofing and extruded urethane products, decreased $3.2 million, or 16.5%, from $19.0 million in the 2001 first quarter to $15.8 million in the 2002 first quarter. This decrease is primarily attributable to lower volumes, principally in urethane films as a result of the general economic slowdown, and competitive price pressures primarily in roofing related products.

Operating profit in the 2002 first quarter for the Elastomerics segment decreased $1.2 million from $0.9 million in the 2001 first quarter to a loss of $0.3 million in the 2002 first quarter. This decrease is due to reduced revenues, lower selling prices, unabsorbed costs associated with underutilized manufacturing capacity, and higher insurance costs.

Net sales in the Glass segment, which includes substrates constructed of synthetics and fiberglass for lamination, insulation, and filtration applications, decreased $8.4 million, or 42.6%, from $19.7 million in the 2001 first quarter to $11.3 million in the 2002 first quarter. The decrease is primarily attributable to the severe decline in demand for electronic application products, partially offset by higher sales of aviation and filtration products resulting from new product introductions and enhancements.

Operating profit in the 2002 first quarter for the Glass segment decreased $2.2 million from $2.0 million in the 2001 first quarter to a loss of $0.2 million in the 2002 first quarter. This decrease reflects lower contribution from sales and higher manufacturing and insurance costs.

Interest expense in the 2002 first quarter was $0.6 million less than the 2001 first quarter as a result of lower debt levels and interest rates.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of liquidity for operations and expansion are funds generated internally and borrowings under its Revolving Credit Facility. See Note 3 for additional discussion of the revolving credit facility.

Year to date for 2002, cash provided by operating activities was $1.7 million. Working capital at October 27, 2001 was $26.8 million compared with $25.7 million at January 26, 2002. Accounts receivable decreased by $4.5 million from October 27, 2001 to January 26, 2002 due to timing and sales levels. Inventories decreased $0.8 million from October 27, 2001 to January 26, 2002. Accounts payable and accrued expenses decreased by $4.9 million from October 27, 2001 to January 26, 2002 as a result of lower general payables.

The principal uses of cash in 2002 were for the repayment of long-term debt of approximately $2.3 million. The Company anticipates that its total capital expenditures in Fiscal 2002 will be approximately $1.0 million and expects such amounts to be funded by cash from operations and bank financing sources.

Based upon the ability to generate working capital through its operations and its new Revolving Credit Facility, the Company believes that it has the financial resources necessary to pay its capital obligations and implement its business plan.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest rate risk. The Company has exposure to interest rate changes primarily relating to interest rate changes under its Revolving Credit Facility. The Company's Revolving Credit Facility bears interest at rates which vary with changes in the London Interbank Offered Rate (LIBOR). The Company does not speculate on the future direction of interest rates. Currently, all of the Company's debt bears interest at the 30-day LIBOR rate plus an applicable margin based upon the Company's debt to EBITDA ratio. The Company believes that the effect, if any, of reasonably possible near-term changes in interest rates on the Company's consolidated financial position, results of operations, or cash flows would not be material.

Raw material price risk. A portion of the Company's raw materials are commodities and are, therefore, subject to price volatility caused by weather, production problems, delivery difficulties, and other factors which are outside the control of the Company. In most cases, essential raw materials are available from several sources. For several raw materials, however, branded goods or other circumstances may prevent such diversification and an interruption of the supply of these raw materials could have a significant impact on the Company's ability to produce certain products. The Company has established long-term relationships with key suppliers and may enter into purchase contracts or commitments of one year or less for certain raw materials. Such agreements generally include a pricing schedule for the period covered by the contract or commitment. The Company believes that any changes in raw material pricing, which cannot be adjusted for by changes in its product pricing or other strategies, would not be significant.

General Economic Conditions. Demand for the Company's products is affected by a variety of economic factors including, but not limited to, the cyclical nature of the construction industry, demand for electronic and aerospace products which ultimately utilize components manufactured by the Company, and general consumer demand. Adverse economic developments could affect the financial performance of the Company.

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JPS INDUSTRIES, INC.

PART II - OTHER INFORMATION

Item		
1.	Legal Proceedings	None
2.	Changes in Securities	None
3.	Defaults Upon Senior Securities	None
4.	Submission of Matters to a Vote of Security Holders	None
5.	Other Information	None
6.	Exhibits and Reports on Form 8-K:	

(a) Exhibits:

(11) Statement re: Computation of Per Share Earnings - not required since such computation can be clearly determined from the material contained herein.

(b) Current Reports on Form 8-K:

None.

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.

JPS INDUSTRIES, INC.

Date: March 7, 2002

/s/ Charles R. Tutterow

Charles R. Tutterow
Executive Vice President,
Chief Financial Officer & Secretary

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