JPS INDUSTRIES INC
Form 10-Q
September 07, 2001

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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 July 28, 2001

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: 9,284,643 shares of the Company"s Common Stock were outstanding as of August 13, 2001.

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Item 1. Financial Statements

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

	July 28, 2001 (Unaudited)
ASSETS	
Current assets:	
Cash	$ 1,177
Accounts receivable	22,321
Inventories (Note 2)	18,911
Prepaid expenses and other (Note 5)	3,938
Net assets of discontinued operations (Note 4)	--
Total current assets	46,347
Property, plant and equipment, net	44,995
Reorganization value in excess of amounts allocable to identifiable assets	2,841
Other assets	19,057

Total assets	$ 113,240
	=========
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 9,705
Accrued interest	92
Accrued salaries, benefits and withholdings	2,263
Other accrued expenses	3,662
Current portion of long-term debt (Note 3 and Note 4)	608

Total current liabilities	16,330
Long-term debt (Note 3 and Note 4)	23,706
Other long-term liabilities	18,216

Total liabilities	58,252

SHAREHOLDERS' EQUITY:	
Common stock- $.01 par value; authorized - 22,000,000 shares; issued - 10,000,000 shares; outstanding - 9,282,977 shares in 2001 and 9,732,500 shares in 2000	100
Additional paid-in capital	124,432
Treasury stock (at cost) - 717,023 in 2001 and 267,500 shares in 2000	(2,782)
Accumulated deficit	(66,762)

Total shareholders' equity	54,988

Total liabilities and shareholders' equity	$ 113,240
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Note: The condensed consolidated balance sheet at October 28, 2001 has been extracted from the audited financial statements.

See notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine M
	July 28, 2001	July 29, 2000	July 28, 2001
Net sales	$ 34,925	$ 43,825	$ 113,095
Cost of sales	28,005	32,988	88,543

Gross profit	6,920	10,837	24,552
Selling, general and administrative expenses	4,830	7,090	16,288
Other income, net	1	6	1
Operating profit	2,091	3,753	8,265
Interest expense	463	836	1,948
Income before income taxes and discontinued operations	1,628	2,917	6,317
Provision for income taxes	634	953	2,460
Income from continuing operations	994	1,964	3,857
Loss from discontinued operations	--	(548)	--
Net income	$ 994	$ 1,416	$ 3,857
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	9,261,763	9,983,750	9,357,644
Diluted	9,537,752	10,107,398	9,616,722
Basic earnings per common share:			
Income from continuing operations	$ 0.11	$ 0.19	$ 0.41
Discontinued operations, net of taxes:			
Loss from discontinued operations	--	(0.05)	--
NET INCOME	$ 0.11	$ 0.14	$ 0.41
Diluted earnings per common share:			
Income from continuing operations	$ 0.10	$ 0.19	$ 0.40
Discontinued operations, net of taxes:			
Loss from discontinued operations	--	(0.05)	--
NET INCOME	$ 0.10	$ 0.14	$ 0.40

See notes to condensed consolidated financial statements.

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

	Nine Months Ended July 28, 2001	Nine Months Ended July 29, 2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,857	$ 3,711
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations	--	604
Depreciation and amortization	4,613	4,615
Amortization of deferred financing costs	235	391
Deferred income tax provision (benefit)	2,460	4,048
Changes in assets and liabilities:		
Accounts receivable	5,319	(666)
Inventories	(328)	1,032
Prepaid expenses and other assets	595	(1,251)
Accounts payable	(3,598)	(426)
Accrued expenses and other liabilities	(6,442)	1,914
Other, net	408	(4,178)
Total adjustments	3,262	6,083
Net cash provided by continuing operating activities	7,119	9,794
Net cash from discontinued operations	--	12,461
Net cash provided by operating activities	7,119	22,255
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment additions	(5,735)	(1,673)
Proceeds from assets held for sale	27,539	--
Net cash provided by (used in) investing activities	21,804	(1,673)
CASH FLOWS FROM FINANCING ACTIVITIES		
Financing costs incurred	(197)	--
Purchase of treasury stock	(2,104)	(133)
Net proceeds from exercise of stock options	490	--
Revolving credit facility borrowings (repayments), net	(27,287)	(19,110)
Repayment of other long-term debt	(864)	(689)
Net cash used in financing activities	(29,962)	(19,932)
NET INCREASE (DECREASE) IN CASH	(1,039)	650
CASH AT BEGINNING OF PERIOD	2,216	427
CASH AT END OF PERIOD	$ 1,177	$ 1,077
SUPPLEMENTAL INFORMATION ON CASH FLOWS FROM CONTINUING OPERATIONS:		
Cash interest paid	$ 1,714	$ 4,765
Cash income taxes paid, net	477	269

See notes to consolidated financial statements.

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

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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 July 28, 2001 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 28, 2000 ("Fiscal 2000"). The results of operations for the interim period are not necessarily indicative of the operating results for the full year. Certain amounts have been reclassified to conform to the current presentation, including amounts related to the sale of the Company's Apparel Division on November 17, 2000.

2. Inventories (in thousands):

	July 28, 2001	October 28, 2000
Raw materials and supplies	$ 3,901	$ 5,796
Work-in-process	4,999	5,135
Finished goods	10,011	7,652
Total	$18,911	$18,583

3. Long-Term Debt (in thousands):

	July 28, 2001	October 28, 2000
Senior credit facility, revolving line of credit	$ 21,011	$ 48,000
Equipment financing	--	736
Capital lease obligation	3,303	3,729
Total	24,314	52,465
Less current portion	(608)	(936)
Long-term portion	$ 23,706	$ 51,529

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 $10,000,000 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 July 28, 2001, the Company's effective interest rate was 5.0%, and it had approximately $14 million available for borrowing under the Revolving Credit Facility.

4. Discontinued Operations

Apparel Fabric Business - On November 17, 2000, the Company sold the assets of its greige apparel fabric business which included three manufacturing facilities in South Boston, Virginia; Greenville, South Carolina; and Laurens, South Carolina; and administrative offices in Greenville, South Carolina, New York and Los Angeles, thereby exiting its apparel business. The business accounted for sales of $90.1 million and operating income of $2.4 million in the Nine Months Ended July 29, 2000. The consideration for the sale consisted of approximately $27.5 million in cash and future consideration in the form of an earn-out based on earnings before interest, depreciation and amortization, as defined, for the 24-month period following the transaction plus certain assumed liabilities. The Company has accounted for the results of the Apparel Fabric Business as a discontinued operation and a charge for loss on disposal of discontinued operations of $47.4 million was recorded in Fiscal 2000 related primarily to the writedown of disposed plant assets and related Reorganization Value to realizable value and other exit costs. The net proceeds from the sale of $26.2 million were used to reduce the Company's outstanding indebtedness on its Revolving

Credit Facility which was amended in connection with the transaction to reflect the Company's lower borrowing requirements.

5. Contingencies

At July 28, 2001, the Company had net operating loss carryforwards for regular federal income tax purposes of approximately $85.0 million (subject to adjustment by the Internal Revenue Service). The net operating loss carryforwards expire in years 2003 through 2021. The Company also has federal alternative minimum tax net operating loss carryforwards of approximately $104.5 million (subject to adjustment) which expire in 2004 through 2021. In addition, the Company has alternative minimum tax credits of approximately $1.8 million that can be carried forward indefinitely and used as a credit against regular federal taxes, subject to limitation. The increase in net operating loss carryforwards from year end results primarily from the sale of the Apparel Division which was recorded in the first quarter for tax purposes.

The Company"s ability to utilize its net operating loss carryforwards is limited under the income tax laws as a result of a change in the ownership of the Company's stock. The effect of such 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. Due to the Company"s operating history, it is uncertain that it will be able to utilize all deferred tax assets. Therefore, a valuation allowance of approximately $29.2 million has been provided.

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 JPS Elastomerics Corp. ("Elastomerics"), a wholly-owned subsidiary of JPS, and two other defendants alleging an unspecified amount of damages in connection with the alleged premature deterioration of the Company"s roofing membrane installed on approximately 150 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.

6. 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 synthetics 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		Nine Months Ended	
	July 28, 2001	July 29, 2000	July 28, 2001	July 200
Net sales:				
Elastomerics	$ 19,913	$ 22,403	$ 60,729	$ 61,
Glass	15,012	22,866	52,366	62,
	34,925	45,269	113,095	124,
Less intersegment sales(1)	--	(1,444)	--	(4,
Net sales	$ 34,925	$ 43,825	$ 113,095	$ 120,
Operating profit(2):				
Elastomerics	$ 1,043	$ 1,825	$ 3,235	$ 5,
Glass	1,048	1,928	5,030	4,
Operating profit	2,091	3,753	8,265	9,
Interest expense	463	836	1,948	2,
Income before income taxes and discontinued operations	$ 1,628	$ 2,917	$ 6,317	$ 7,

	July 28, 2001	October 28, 2000
Identifiable assets:		
Elastomerics	$ 55,624	$ 74,801
Glass	57,616	74,569
Eliminations	--	(1,128)
Total assets	$ 113,240	$ 148,242

(1) Intersegment sales consist primarily of the transfer of certain scrim products manufactured by the Glass segment to the Elastomerics segment and were discontinued in Fiscal 2000. All intersegment revenues and profits are eliminated in the accompanying condensed consolidated financial statements.

(2) 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.

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 2001 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 28, 2000.

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. On November 17, 2000, the Company sold its Apparel Division, thereby completely exiting the textile business. The Company is now focusing solely on improving the performance and profitability of its remaining core businesses: JPS Elastomerics and JPS Glass.

Three Months Ended July 28, 2001 (the "2001 Third Quarter") Compared to the Three Months Ended July 29, 2000 (the "2000 Third Quarter")

Consolidated net sales decreased $8.9 million, or 20.3%, from $43.8 million in the 2000 third quarter to $34.9 million in the 2001 third quarter. Operating profit decreased $1.7 million from an operating profit of $3.8 million in the 2000 third quarter to an operating profit of $2.1 million in the 2001 third quarter.

Net sales in the 2001 third quarter in the Elastomerics segment, which includes single-ply roofing, environmental membrane, and extruded urethane products, decreased $2.5 million, or 11.1%, from $22.4 million in the 2000 third quarter to $19.9 million in the 2001 third quarter. This decrease is primarily attributable to lower product demand as a result of the general economic slowdown.

Operating profit for the Elastomerics segment decreased $0.8 million from $1.8 million in the 2000 third quarter to $1.0 million in the 2001 third quarter. The decrease is due to lower contribution from sales and higher manufacturing, utility, and insurance costs.

Net sales in the Glass segment, which includes mechanically-formed substrates constructed of synthetics and fiberglass for electronic components, construction products, aerospace components, industrial insulation, and filtration applications decreased $7.9 million, or 34.3%, from $22.9 million in the 2000 third quarter to $15.0 million in the 2001 third quarter. The decrease resulted from dramatically lower demand levels for the Company's electronic substrate products partially offset by stronger demand for some of the Company's other industrial products.

Operating profit for the Glass segment decreased $0.9 million from $1.9 million in the 2000 third quarter to $1.0 million in the 2001 third quarter. This decrease reflects lower contribution from sales and higher manufacturing, utility, and insurance costs.

Interest expense in the 2001 third quarter was $0.4 million less than the 2000 third quarter as a result of lower debt levels and interest rates.

Nine Months Ended July 28, 2001 (the "2001 Nine-Month Period") Compared to the Nine Months Ended July 29, 2000 (the "2000 Nine-Month Period")

Consolidated net sales decreased $6.9 million, or 5.8%, from $120.0 million in the 2000 nine-month period to $113.1 million in the 2001 nine-month period. Operating profit decreased $1.5 million from $9.8 million in the 2000 nine-month period to $8.3 million in the 2001 nine-month period.

Net sales in the 2001 nine-month period in the Elastomerics segment decreased $0.7 million, or 1.2%, from $61.4 million in the 2000 nine-month period to $60.7 million in the 2001 nine-month period. This decrease is primarily attributable to lower product demand as a result of the general economic slowdown beginning in the third quarter.

Operating profit for the Elastomerics segment decreased $2.1 million from $5.3 million in the 2000 nine-month period to $3.2 million in the 2001 nine-month period. This decrease is due to lower contribution from sales and higher manufacturing, utility, and insurance costs.

Net sales in the Glass segment decreased $10.3 million, or 16.4%, from $62.7 million in the 2000 nine-month period to $52.4 million in the 2001 nine-month period. The decrease is primarily attributable to lower demand for the Company's electronic substrate products.

Operating profit for the Glass segment increased $0.5 million from $4.5 million in the 2000 nine-month period to $5.0 million in the 2001 nine-month period as a result of cost reduction efforts, quality enhancements, and improved operating efficiencies offsetting lower contribution from sales and higher insurance and utility costs.

Interest expense in the 2001 nine-month period was $1.9 million compared to $2.5 million in the 2000 nine-month period, reflecting 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 2001, cash provided by operating activities was $7.1 million. Working capital, excluding assets held for sale, at October 28, 2000 was $28.7 million compared with $30.0 million at July 28, 2001. Accounts receivable decreased by $5.3 million from October 28, 2000 to July 28, 2001 due to timing and sales levels. Inventories increased $0.3 million from October 28, 2000 to July 28, 2001. Accounts payable and accrued expenses decreased by $10.0 million from October 28, 2000 to July 28, 2001 as a result of payment of Fiscal 2000 Incentive Compensation and lower general payables.

The principal uses of cash in 2001 were for capital expenditures of $5.7 million to upgrade the Company's manufacturing operations and the repayment of long-term debt of approximately $28.2 million. The Company also used $2.1 million to repurchase outstanding shares of its common stock. On November 17, 2000, the Company received approximately $27.5 million in proceeds from the sale of its Apparel division as discussed under the caption "Fiscal 2000 Compared With Fiscal 1999" in the Company's Annual Report on Form 10-K for the fiscal year ended October 28, 2000. Such funds were used to reduce the Company's outstanding indebtedness under its Revolving Credit Facility and certain equipment loans. The Company anticipates that its total capital expenditures in Fiscal 2001 will be approximately $6 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.

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 Stockholders	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:

      (i) No reports on Form 8-K were filed for the Third Quarter ended July 28, 2001.

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: September 7, 2001

/s/ Charles R. Tutterow

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