JPS INDUSTRIES INC
Form 10-Q
March 12, 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 January 27, 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: 9,174,549 shares of the Company's Common Stock were outstanding as of March 9, 2001.

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Item 1. Financial Statements

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

	January 27, 2001	Oct
	(Unaudited)	
ASSETS		
Current assets:		
Cash	$ 931	$
Accounts receivable	22,014	
Inventories (Note 2)	20,219	
Prepaid expenses and other (Note 5)	5,238	
Net assets of discontinued operations (Note 4)	85	
Total current assets	48,487	
Property, plant and equipment, net	45,138	
Reorganization value in excess of amounts allocable to identifiable assets	2,928	
Other assets	18,848	

Total assets	$ 115,401	$
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 9,803	$
Accrued interest	229	
Accrued salaries, benefits and withholdings	3,221	
Other accrued expenses	3,701	
Current portion of long-term debt (Note 3 and Note 4)	25,926	
Total current liabilities	42,880	
Long-term debt (Note 3 and Note 4)	2,954	
Other long-term liabilities	17,832	
Total liabilities	63,666	
Shareholders' equity:		
Common stock - $.01 par value; authorized - 22,000,000 shares; issued - 10,000,000 shares; outstanding - 9,174,549 shares in 2001 and 10,000,000 shares in 2000	100	
Additional paid-in capital	124,251	
Treasury stock (at cost) - 825,451 in 2001 and 267,500 shares in 2000	(3,296)	
Accumulated deficit	(69,320)	
Total shareholders' equity	51,735	
Total liabilities and shareholders' equity	$ 115,401	$

Note: The condensed consolidated balance sheet at October 28, 2000 has been extracted from the audited financial statements.

See notes to consolidated financial statements.

JPS INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in Thousands Except Per Share Data)
(Unaudited)

	Three Months Ended	
	January 27, 2001	January 29, 2000
Net sales	$ 38,633	$ 35,
Cost of sales	29,852	26,

Gross profit	8,781	8,
Selling, general and administrative expenses	5,804	6,
Other income, net	2	
Operating profit	2,979	2,
Interest expense	851	
Income before income taxes and discontinued operations	2,128	1,
Provision for income taxes	829	
Income from continuing operations	1,299	
Loss from discontinued operations	-	
Net income	$ 1,299	$
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic	9,453,525	10,000,
Diluted	9,695,691	10,000,
Basic earnings (loss) per common share:		
Income from continuing operations	$ 0.14	$ 0
Discontinued operations, net of taxes:		
Loss from discontinued operations	-	(0
NET INCOME	$ 0.14	$ 0
Diluted earnings (loss) per common share:		
Income from continuing operations	$ 0.13	$ 0
Discontinued operations, net of taxes:		
Loss from discontinued operations	-	(0
NET INCOME	$ 0.13	$ 0

See notes to condensed consolidated financial statements.

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

(Unaudited)

	Three Months Ended	
	January 27, 2001	January 2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,299	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations	-	
Depreciation and amortization	1,488	
Amortization of deferred financing costs	75	
Deferred income tax provision (benefit)	-	
Changes in assets and liabilities:		
Accounts receivable	5,626	
Inventories	(1,636)	
Prepaid expenses and other assets	1,755	(
Accounts payable	(3,500)	(
Accrued expenses and other liabilities	(5,308)	
Other, net	224	
Total adjustments	(1,276)	
Net cash provided by continuing operating activities	23	
Net cash from discontinued operations	-	
Net cash provided by operating activities	23	1
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment additions	(3,070)	
Proceeds from assets held for sale	27,454	
Net cash provided by (used in) investing activities	24,384	
CASH FLOWS FROM FINANCING ACTIVITIES		
Financing costs incurred	(61)	
Purchase of treasury stock	(2,033)	
Net proceeds from exercise of stock options	(13)	
Revolving credit facility borrowings (repayments), net	(23,007)	(1
Repayment of other long-term debt	(578)	
Net cash used in financing activities	(25,692)	(1
NET INCREASE (DECREASE) IN CASH	(1,285)	
CASH AT BEGINNING OF PERIOD	2,216	
CASH AT END OF PERIOD	$ 931	$

SUPPLEMENTAL INFORMATION ON CASH FLOWS

FROM CONTINUING OPERATIONS:			
Interest paid	$	1,274	$
Income taxes paid, net		391	

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 January 27, 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):

	January 27, 2001	October 28, 2000
Raw materials and supplies	$ 5,218	$ 5,796
Work-in-process	5,218	5,135
Finished goods	9,783	7,652

Total	$ 20,219	$ 18,583

3. Long-Term Debt (in thousands):

	January 27, 2001	October 2 2000
Senior credit facility, revolving line of credit	$ 25,290	$ 4
Equipment financing	-	
Capital lease obligation	3,590	
Total	28,880	5
Less current portion	(25,926)	
Long-term portion	$ 2,954	$ 5

In connection with the November 17, 2000 amendment, the Company shortened the maturity date of the Revolving Credit Facility to November 12, 2001. The Company is currently negotiating with various financing companies and expects to replace the facility prior to its maturity.

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 $30.0 million and operating income of $1.1 million in the Three Months Ended January 29, 2000. The consideration for the sale consisted of approximately $27.1 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 January 27, 2001, the Company had net operating loss carryforwards for regular federal income tax purposes of approximately $94.0 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 $111.0 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 realized prior to completion of the Plan of Reorganization is limited under the income tax laws as a result of the change in the ownership of the Company's stock occurring as a part of the Plan of Reorganization. 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. 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	
	January 27, 2001	January 29, 2000
Net sales:		
Elastomerics	$ 18,976	$ 18,308
Glass	19,657	18,066
	38,633	36,374
Less intersegment sales (1)	-	(1,237
Net sales	$ 38,633	$ 35,137
Operating profit (2):		
Elastomerics	$ 947	$ 1,318
Glass	2,032	888
Operating profit	2,979	2,206
Interest expense	851	853
Income before income taxes and discontinued operations	$ 2,128	$ 1,353
	January 27, 2001	October 28, 2000
Identifiable assets:		
Elastomerics	$ 53,844	$ 74,801
Glass	61,557	74,569
Eliminations	-	(1,128
Total assets	$ 115,401	$ 148,242

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

(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, the Company's ability to meet its debt service obligations including the ability to refinance the maturing debt, competition from a variety of general domestic and foreign manufacturers, the seasonality of the Company's sales, the volatility of the Company's raw materials cost 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.

	(In Thousands) Three Months Ended	
	January 27, 2001	January 29, 2000
Net sales:		
Elastomerics	$ 18,976	$ 18,308
Glass	19,657	18,066
	38,633	36,374
Less intersegment sales	-	(1,237)
Net sales	$ 38,633	$ 35,137
Operating profit:		
Elastomerics	$ 947	$ 1,318
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Interest expense	851	853
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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. 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 January 27, 2001 (the "2001 First Quarter") Compared to the Three Months Ended January 29, 2000 (the "2000 First Quarter")

Consolidated net sales increased $3.5 million, or 10.0%, from $35.1 million in the 2000 first quarter to $38.6 million in the 2001 first quarter. Operating profit increased $0.8 million from $2.2 million in the 2000 first quarter to $3.0 million in the 2001 first quarter.

Net sales in the 2001 first quarter in the Elastomerics segment, which includes single-ply roofing, environmental membrane and extruded urethane products, increased $0.7 million, or 3.8%, from $18.3 million in the 2000 first quarter to $19.0 million in the 2001 first quarter. This increase is primarily attributable to an improvement in demand for the Company's extruded urethane products, which have a wide variety of end-uses including applications in athletic, high performance safety glass, automotive, medical, industrial, and consumer products industries. The urethane sales increase offset lower sales of Stevens(R) Roofing System products, which declined as a result of slower construction activity in November and December, 2000.

Operating profit in the 2001 first quarter for the Elastomerics segment decreased $0.4 million from $1.3 million in the 2000 first quarter to $0.9 million in the 2001 first quarter. This decrease resulted principally from lower roofing sales, the resulting lower product margin contribution and associated lower manufacturing efficiencies.

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 increased $1.6 million, or 8.8%, from $18.1 million in the 2000 first quarter to $19.7 million in the 2001 first quarter. The increase is primarily attributable to higher demand for electronic and aerospace substrates.

Operating profit in the 2001 first quarter for the Glass segment increased $1.1 million from $0.9 million in the 2000 first quarter to $2.0 million in the 2001 first quarter primarily as a result of cost savings initiatives and higher manufacturing efficiencies which offset raw material and energy cost increases.

Interest expense in the 2001 first quarter was consistent with the 2000 first quarter.

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 (as defined below). On October 9, 1997, JPS Elastomerics and C&I (the "Borrowing Subsidiaries") and JPS entered into the Credit Facility Agreement (the "Credit Agreement"), as amended, by and among the financial institutions party thereto, Citibank, as agent, and Bank of America, as co-agent. As amended, on November 17, 2000, the Credit Agreement 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) $45 million and (b) a specified borrowing base (the "Borrowing Base"), which is based upon eligible receivables, eligible inventory, and a specified dollar amount (currently $12,600,000 (subject to reduction) based on fixed assets of the Borrowing Subsidiaries), except that (i) no Borrowing Subsidiary may borrow an amount greater than the Borrowing Base attributable to it (less any reserves as specified in the Credit Agreement) and (ii) letters of credit may not exceed $20 million in the aggregate. The Credit Agreement contains restrictions on investments, acquisitions and dividends unless, among other things, the Company satisfies a specified pro forma fixed charge coverage ratio and maintains a specified minimum availability under the Revolving Credit Facility for a stated period of time, and no default exists under the Credit Agreement. The Credit Agreement contains financial covenants relating to minimum levels of EBITDA, minimum interest coverage ratio, minimum fixed charge coverage ratio, and maximum capital expenditures. Subsequent to October 9, 1997, the Credit Agreement has been amended to, among other things (i) modify the financial covenants relating to minimum levels of EBITDA, minimum interest coverage ratio, minimum fixed charge coverage ratio, and maximum capital expenditures, (ii) modify the interest rate margin and unused commitment fees, (iii) provide additional reduction of the fixed asset portion of the Borrowing Base and (iv) allow the Company to repurchase its

common stock under certain circumstances. As of January 27, 2001, the Company was in compliance with these restrictions and all financial covenants, as amended. All loans outstanding under the Revolving Credit Facility, as amended, bear interest at either the Eurodollar Rate (as defined in the Credit Agreement) or the Base Rate (as defined in the Credit Agreement) plus an applicable margin (the "Applicable Margin") based upon the Company's fixed charge coverage ratio (which margin will not exceed 2.50% for Eurodollar Rate borrowings and 1.00% for Base Rate borrowings). At January 27, 2001, the Company had approximately $11.5 million available for borrowing under the Revolving Credit Facility.

During the 2001 first quarter, cash provided by operating activities was $27,000. Working capital, excluding assets held for sale, at October 28, 2000 was $28.7 million compared with $5.5 million at January 27, 2001 principally as a result of classifying the balance of the Company's Revolving Credit Facility as current maturity of long-term debt. Accounts receivable decreased by $5.6 million from October 28, 2000 to January 27, 2001 due to timing. Inventories increased $1.6 million from October 28, 2000 to January 27, 2001 due to slower roofing sales. Prepaid and other assets decreased $1.8 million due to timing. Accounts payable decreased by $3.5 million from October 28, 2000 to January 27, 2001 primarily as a result of payment of Fiscal 2000 Incentive Compensation.

The principal use of cash in the 2001 first quarter was for capital expenditures of $3.1 million for upgrade of the Company's manufacturing operations and the repayment of long-term debt of approximately $23.6 million. The Company also used $2.1 million to repurchase outstanding shares of its common stock. On November 17, 2000, the Company received approximately $27.1 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 further reduce the Company's outstanding indebtedness under its Revolving Credit Facility and certain equipment loans. The Company anticipates making capital expenditures in Fiscal 2001 of approximately $5.0 million to $6.0 million and expects such amounts to be funded by cash from operations and bank financing sources.

Based upon the Company's ability to generate working capital through its operations and its current or replacement Revolving Credit Facility, the Company believes that it has the financial resources necessary to pay its capital obligations and implement its business plan. In connection with the November 17, 2000 amendment, the Company shortened the maturity date of the Revolving Credit Facility to November 12, 2001. The Company is currently negotiating with various financing companies and expects to replace the facility prior to its maturity.

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 (i) the London Interbank Offered Rate (LIBOR) or (ii) a rate of interest announced publicly by Citibank in New York, New York. The Company does not speculate on the future direction of interest rates. As of January 27, 2001, approximately $25.3 million of the Company"s debt bore interest at variable rates. 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 significant.

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.

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:
      Form 8-K dated December 4, 2000 (Incorporated by Reference):
      Item 2. Acquisition or Disposition of Assets - Apparel Division Sale
      Item 7. Financial Statements and Exhibits - ProForma Financial Information

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 9, 2001

/s/ Charles R. Tutterow

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