JPS INDUSTRIES INC
Form 10-Q
May 31, 2002

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JPS INDUSTRIES, INC.

Quarterly Report On Form 10-Q
Under the Securities Exchange Act of 1934
for the Fiscal Quarter Ended April 27, 2002

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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 April 27, 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: 9,275,423 shares of the Company's Common Stock were outstanding as of May 23, 2002.

JPS INDUSTRIES, INC.
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ITEM 1. FINANCIAL STATEMENTS

JPS INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands Except Share and Per Share Amounts)

	April 27, 2002 (Unaudited)
ASSETS	
Current assets:	
Cash	$ --
Accounts receivable	20,260
Inventories (Note 2)	16,618
Prepaid expenses and other (Note 4)	3,261
Total current assets	40,139
Property, plant and equipment, net	41,005
Other assets	22,998
Total assets	$ 104,142
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 8,440
Accrued salaries, benefits and withholdings	1,556
Other accrued expenses	3,474
Current portion of long-term debt (Note 3)	644
Total current liabilities	14,114
Long-term debt (Note 3)	16,287
Deferred revenue and postemployment liabilities	19,056
Total liabilities	49,457
SHAREHOLDERS' EQUITY:	
Common stock- $.01 par value; authorized - 22,000,000 shares; issued - 10,000,000 shares; outstanding - 9,275,423 shares	100
Additional paid-in capital	124,168
Treasury stock (at cost) - 724,577 shares	(2,817)

Accumulated deficit	(66,766)
Total shareholders' equity	54,685
Total liabilities and shareholders' equity	$ 104,142

Note: The condensed consolidated balance sheet at October 27, 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		
	April 27, 2002	April 28, 2001	Apr 2
Net sales	$ 31,927	$ 39,537	$
Cost of sales	27,646	30,686	
Gross profit	4,281	8,851	
Selling, general and administrative expenses	4,297	5,654	
Other expense (income), net	--	2	
Operating profit (loss)	(16)	3,195	
Interest expense	194	634	
Income (loss) before income taxes	(210)	2,561	
Income taxes (benefit)	(82)	997	
Net income (loss)	$ (128)	$ 1,564	$
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	9,273,590	9,207,549	9,
Diluted	9,273,590	9,424,528	9,

Basic earnings (loss) per common share	$ (0.01)	$ 0.17	$
Diluted earnings (loss) per common share	$ (0.01)	$ 0.17	$

See notes to condensed consolidated financial statements.

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

	Six Months Ended	
	April 27, 2002	Ap
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (573)	$
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,874	
Amortization of deferred financing costs	23	
Deferred income tax provision (benefit)	(366)	
Other, net	62	
Changes in assets and liabilities:		
Accounts receivable	1,396	
Inventories	1,821	
Prepaid expenses and other assets	396	
Accounts payable	(2,066)	
Accrued expenses and other liabilities	(973)	
Total adjustments	3,167	
Net cash provided by operating activities	2,594	
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment additions	(173)	
Proceeds from assets held for sale	--	
Net cash provided by (used in) investing activities	(173)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Financing costs incurred	--	
Purchase of treasury stock	--	
Net proceeds from exercise of stock options	11	
Revolving credit facility repayments, net	(2,673)	(

Repayment of other long-term debt	(303)	
Net cash used in financing activities	(2,965)	(
NET DECREASE IN CASH	(544)	
CASH AT BEGINNING OF PERIOD	544	
CASH AT END OF PERIOD	$ --	$
SUPPLEMENTAL INFORMATION ON CASH FLOWS FROM CONTINUING OPERATIONS:		
Interest paid	$ 404	$
Income taxes paid, net	140	

See notes to condensed 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 April 27, 2002 and for all periods presented have been made.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset 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 accounting principles generally accepted in the United States 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):

	April 27, 2002
Raw materials and supplies	$ 3,211
Work-in-process	3,878
Finished goods	9,529
Total	$ 16,618

3. Long-Term Debt (in thousands):

	April 27, 2002
Senior credit facility, revolving line of credit	$ 14,080
Capital lease obligation	2,851
Total	16,931
Less current portion	(644)
Long-term portion	$ 16,287

The Company's Revolving Credit and Security Agreement ("the Revolving Credit Facility") is with Wachovia Bank. On April 26, 2002, the Company amended the Revolving Credit Facility to increase its flexibility and reduce the unused line fee. The facility, as amended, provides for a revolving credit loan facility and letters of credit in a maximum principal amount equal to the lesser of (a) $27 million or (b) a specified borrowing base (the "Borrowing Base"), which is based upon eligible

receivables, eligible inventory, and a specified dollar amount (currently $9.1 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 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 April 27, 2002, the Company's interest rate under the Revolving Credit Facility was 3.1%.

As of April 27, 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 April 27, 2002, the Company had approximately $12.3 million available for borrowing under the Revolving Credit Facility.

4. Contingencies

At April 27, 2002, the Company had regular federal net operating loss carryforwards for tax purposes of approximately $89.2 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 $105.2 million which expire in 2004 through 2020. Alternative minimum tax credits of $1.8 million 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. A trial date has been established for sometime in 2003. The Company believes it has meritorious defenses to the claims and intends to defend the lawsuit vigorously as it has since its inception in 1997. 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		Six Mo
	April 27, 2002	April 28, 2001	April 27, 2002
Net sales:			
Elastomerics	$ 18,313	$ 21,840	$ 34,152
Glass	13,614	17,697	24,906
Net sales	$ 31,927	$ 39,537	$ 59,058
Operating profit (loss)(1):			
Elastomerics	$ (275)	$ 1,245	$ (564)
Glass	259	1,950	34
Operating profit (loss)	(16)	3,195	(530)
Interest expense	194	634	409
Income (loss) before income taxes	$ (210)	$ 2,561	$ (939)

	========	========	========

	April 27, 2002
Identifiable assets:	
Elastomerics	$ 51,201
Glass	52,941
Total assets	$104,142

(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:

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 APRIL 27, 2002 (THE "2002 SECOND QUARTER") COMPARED TO THE THREE MONTHS ENDED APRIL 28, 2001 (THE "2001 SECOND QUARTER")

Consolidated net sales decreased $7.6 million, or 19.2%, from $39.5 million in the 2001 second quarter to $31.9 million in the 2002 second quarter. Operating profit decreased $3.2 million from $3.2 million in the 2001 second quarter to a loss of $16,000 in the 2002 second quarter.

Net sales in the 2002 second quarter in the Elastomerics segment, which includes single-ply roofing and extruded urethane products, decreased $3.5 million, or 16.1%, from $21.8 million in the 2001 second quarter to $18.3 million in the 2002 second quarter. This decrease is primarily attributable to lower urethane product sales as a result of general economic conditions and lower roofing product sales primarily due to price competition.

Operating profit for the Elastomerics segment decreased $1.5 million from $1.2 million in the 2001 second quarter to a loss of $0.3 million in the 2002 second quarter. The decrease is due to lower margins resulting from decreased sales prices and higher manufacturing costs, partially offset by lower allocated net corporate expenses resulting from higher pension income and reduced general expenses.

Net sales in the Glass segment, which includes substrates of synthetics and fiberglass for lamination, insulation, and filtration applications decreased $4.1 million, or 23.1%, from $17.7 million in the 2001 second quarter to $13.6 million in the 2002 second quarter. The decrease is caused by lower demand for electronic substrate products offset by higher demand for the Company's industrial products, including its new patented filtration products, partially offset by lower allocated net corporate expenses resulting from higher pension income and reduced general expenses.

Operating profit for the Glass segment decreased $1.6 million from $1.9 million in the 2001 second quarter to $0.3 million in the 2002 second quarter. This decrease is primarily caused by lower selling prices as a result of the highly competitive electronics market combined with higher manufacturing costs as a result of operating at lower efficiencies.

Interest expense in the 2002 second quarter was $0.4 million less than the 2001 second quarter as a result of lower debt levels and interest rates.

SIX MONTHS ENDED APRIL 27, 2002 (THE "2002 SIX-MONTH PERIOD") COMPARED TO THE SIX MONTHS ENDED APRIL 28, 2001 (THE "2001 SIX-MONTH PERIOD")

Consolidated net sales decreased $19.1 million, or 24.4%, from $78.2 million in the 2001 six-month period to $59.1 million in the 2002 six-month period. Operating profit decreased $6.7 million from $6.2 million in the 2001 six-month period to a loss of $0.5 million in the 2002 six-month period.

Net sales in the 2002 six-month period in the Elastomerics segment decreased $6.7 million, or 16.4%, from $40.8 million in the 2001 six-month period to $34.2 million in the 2002 six-month period. This decrease is primarily attributable to lower urethane product sales as a result of general economic conditions and lower roofing product sales primarily due to price competition.

Operating profit for the Elastomerics segment decreased $2.8 million from $2.2 million in the 2001 six-month period to a loss of $0.6 million in the 2002 six-month period. This decrease is due to lower margins resulting from decreased sales prices and higher manufacturing costs, partially offset by lower allocated net corporate expenses resulting from higher pension income and reduced general expenses.

Net sales in the Glass segment decreased $12.5 million, or 33.4%, from $37.4 million in the 2001 six-month period to $24.9 million in the 2002 six-month period. The decrease is primarily attributable to lower demand for electronic substrate products offset by higher demand for the Company's industrial products, including its new patented filtration products.

Operating profit for the Glass segment decreased $4.0 million from $4.0 million in the 2001 six-month period to $34,000 in the 2002 six-month period as a result of the highly competitive electronics market combined with higher manufacturing costs as a result of operating at lower efficiencies, partially offset by lower allocated net corporate expenses resulting from higher pension income and reduced general expenses.

Interest expense in the 2002 six-month period was $1.1 million less than the 2001 six-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 2002, cash provided by operating activities was $2.6 million. Working capital at October 27, 2001 was $26.8 million compared with $26.0 million at April 27, 2002. From October 27, 2001 to April 27, 2002, accounts receivable decreased by $1.4 million due to timing and sales levels, inventories decreased $1.8 million, and accounts payable and accrued expenses decreased by $3.0 million as a result of payment of lower general payables.

The principal uses of cash in 2002 were for the repayment of long-term debt of approximately $3.0 million and capital expenditures of $173,000. The Company anticipates that its total capital expenditures in Fiscal 2002 will be $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 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.

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
   The Company's Annual Meeting of Stockholders was held on February 26, 2002 in New York, New York for the following purposes:

   (1) To elect five (5) members of the Board of Directors to serve for a one year term expiring at the 2003 Annual Meeting of Stockholders:

	For	Against
Michael L. Fulbright	7,044,656	29,456
Robert J. Capozzi	7,054,156	19,956
Nicholas P. DiPaolo	7,055,156	18,956
John M. Sullivan, Jr.	7,055,156	18,956
Charles R. Tutterow	7,036,656	37,456

   (2) To ratify the appointment of Arthur Andersen LLP as the Company's independent auditors for the 2002 fiscal year:

For	Against	Abstain
7,018,047	52,365	3,700

5. Other Information None

6. Exhibits and Reports on Form 8-K:

(a) Exhibits:

(10.1) First Amendment to the Revolving Credit & Security Agreement, dated as of April 26, 2002, by and among JPS, C&I, Elastomerics and Wachovia Bank, National Association (successor by merger to First Union National Bank).

(10.2) Employment Agreement Amendment dated May 8, 2002 between the Company and Charles R. Tutterow.

(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: May 31, 2002

/s/ Charles R. Tutterow

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