ANGELICA CORP /NEW/
Form 10-Q
September 06, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For The Quarter Ended July 28, 2001	Commission File Number 1-5674

ANGELICA CORPORATION
(Exact name of Registrant as specified in its charter)

MISSOURI	43-0905260
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

424 South Woods Mill Road CHESTERFIELD, MISSOURI	63017
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code
(314) 854-3800

Former name, former address and former fiscal year
if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports 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

The number of shares outstanding of Registrant's Common Stock, par value $1.00 per share, at September 1, 2001 was 8,607,499 shares.

ANGELICA CORPORATION AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND SUPPORTING SCHEDULES

FOR JULY 28, 2001 FORM 10-Q QUARTERLY REPORT

ANGELICA CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

QUARTER ENDED JULY 28, 2001

(1) The accompanying consolidated condensed financial statements are unaudited, and it is suggested that these consolidated statements be read

in conjunction with the fiscal 2001 Annual Report, including Notes to Consolidated Financial Statements. However, it is the opinion of the Company that all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results during the interim period have been included.

(2) See Index to Financial Statements and Supporting Schedules on page 1. Those pages of the Angelica Corporation and Subsidiaries Quarterly Report to Shareholders for the quarter ended July 28, 2001, listed in such index are incorporated herein by reference. The pages of the Quarterly Report to Shareholders which are not listed on the index and therefore not incorporated herein by reference are furnished for the information of the Commission but are not to be deemed "filed" as a part of this report. The Quarterly Report to Shareholders referred to herein is located immediately following page 4 of this report.

(3) For purposes of the Consolidated Statements of Cash Flows, the Company considers short-term, highly liquid investments which are readily convertible into cash, as cash equivalents.

(4) In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 governs the initial recognition and measurement of intangible assets acquired in business combinations initiated after June 30, 2001. Under SFAS 142, goodwill recorded as of June 30, 2001 will no longer be amortized effective with the date of adoption, which is January 27, 2002 for the Company. Additionally, any goodwill recognized from a business combination completed after June 30, 2001 will not be amortized. Instead, goodwill will be tested for impairment as of the date of adoption and at least annually thereafter using a fair-value based analysis. The Company has not determined the effect on its consolidated financial statements that will result from the adoption of SFAS 141 and SFAS 142. Goodwill amortization expense is expected to be approximately $400,000 in fiscal 2002, and would be a comparable amount in fiscal 2003, absent this accounting change.

ANGELICA CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

AND FINANCIAL CONDITION

QUARTER ENDED JULY 28, 2001

Analysis of Operations

Combined sales and textile service revenues for the second quarter and first half ended July 28, 2001 increased 2.7 percent and 4.1 percent, respectively, over the comparable prior year periods. This is the fourth consecutive quarterly increase in combined sales and textile service revenues. However, a strong performance by our largest business segment, Textile Services, could not overcome earnings declines for the quarter in our Manufacturing and Marketing and Life Retail Stores segments primarily due to a weak economy. As a result, earnings of $.10 per share in the quarter were 52.4 percent lower than the $.21 per share earned a year ago. Earnings per share in the first half this year were $.27 compared with $.39 last year, a decline of 30.8 percent.

Revenues of the Textile Services segment increased 8.2 percent in the second quarter, and are up 8.1 percent for the year, due to record high levels of net new business additions. Earnings of this segment increased 24.9 percent in the quarter and 16.4 percent in the first half as a result of the higher revenues combined with continued improvements in plant productivity and linen management. Energy costs also moderated somewhat during the quarter. In the second quarter, sales of the Manufacturing and Marketing segment declined 4.7 percent and operating earnings fell by 65.3 percent compared to a year ago. Lower levels of purchases by new and existing customers and slightly lower gross margins due to sales mix produced a small operating loss at Angelica Image Apparel, the domestic operations of this segment. The Canadian operations of this segment, on the other hand, had excellent sales and earnings gains in the quarter and first half. For the first half of the year, earnings of the Manufacturing and Marketing segment were down 52.8 percent on a 0.3 percent decline in sales. In the second quarter, operating expense reductions amounting to approximately $4,000,000 on an annualized basis were implemented at Angelica Image Apparel. These reductions are expected to benefit the second half of the year. Second quarter sales at Life Retail Stores were also affected by the current economic slowdown, declining 2.7 percent as a result of a same-store sales decline of 6.2 percent. For the first half of the year, sales increased 0.1 percent due to the opening of ten new stores and sales from the catalogue and e-commerce distribution channels offset by a same-store sales decline of 2.1 percent. However, sales through these new distribution channels were lower than planned, and the new stores have not yet made a positive contribution to earnings. Consequently, this segment posted operating losses of $712,000 in the second quarter and $773,000 in the first half, compared with earnings of $146,000 and $689,000 in the second quarter and first half, respectively, a year ago.

Selling, general and administrative expenses increased 7.0 percent in the second quarter compared with the same period last year. These expenses increased as a percent of combined sales and textile service revenues from 24.8 percent to 25.8 percent in the quarter reflecting the sales declines in Manufacturing and Marketing and Life Retail Stores. Corporate expenses, including interest, increased 7.3 percent in the quarter due mainly to reduced interest income on lower cash balances and lower interest rates.

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Financial Condition

The Company had working capital of $120,064,000 and a current ratio of 2.5 to 1 at July 28, 2001, down from $146,174,000 and 4.0 to 1 a year ago due primarily to the reclassification from long-term debt to current maturities of a $25,000,000 debt payment due December 31, 2001. The ratio of long-term debt to debt-plus-equity was 25.0 percent at the close of the quarter, down from 34.5 percent a year ago and 27.1 percent at the beginning of the year.

Operating activities provided total cash flow of $1,702,000 in the first half compared with $9,974,000 in the first half last year. This decrease is primarily due to payments for the inventory build-up in last year's fourth quarter in the Manufacturing and Marketing segment, coupled with additional working capital requirements to support growth at Textile Services. Cash used in investing activities was $6,281,000 compared with cash used a year ago of $2,050,000. The difference is due mainly to increased capital expenditures of $2,645,000 in the current year, primarily to improve productivity and reduce utility costs in the Textile Services segment and to open new Life Retail stores. Cash flows used in financing activities decreased $2,679,000 in this year's first half compared to the year earlier period, due mainly to a reduction in dividends paid. Cash and short-term investments totaled $13,271,000 at July 28, 2001, down from $18,435,000 a year ago and $20,311,000 at the beginning of the year.

During the second quarter, the Company entered into two new loan commitment agreements that made available to the Company up to $30,000,000 on a revolving credit basis for working capital and other purposes. Shortly after the end of the quarter, on July 30, 2001, $15,000,000 of the $25,000,000 of 9.15 percent interest-bearing debt maturing on December 31, 2001 was prepaid using $12,000,000 of proceeds from one of the agreements plus cash on hand. The prepayment is expected to save approximately $240,000 of net interest expense in the second half of this year.

Based on the Company's cash generation from operations, as well as its strong working capital position, current ratio and ratio of long-term debt to debt-plus-equity, Management believes that internal funds available from operations plus external funds available from the issuance of additional debt and/or equity as needed in the future, will be sufficient for all planned operating and capital requirements, including acquisitions.

Forward-Looking Statements

Any forward-looking statements made in this document reflect the Company's current views with respect to future events and financial performance and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties that may cause actual results to differ materially from those set forth in these statements. These potential risks and uncertainties include, but are not limited to, competitive and general economic conditions, the ability to retain current customers and to add new customers in competitive market environments, competitive pricing in the marketplace, delays in the shipment of orders, availability of labor at appropriate rates, availability and cost of energy and water supplies, availability of non-domestic image apparel contractors to manufacture and deliver at an appropriate cost and in a timely manner, the ability to attract and retain key personnel, unusual or unexpected cash needs for operations or capital transactions, and other factors which may be identified in the Company's filings with the Securities and Exchange Commission.

EXHIBIT A

TEXTILE SERVICES   IMAGE APPAREL   INNOVATION VALUE

Angelica Corporation
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Angelica [Logo]

August 16, 2001

Dear Fellow Shareholder:

As indicated in our August 16, 2001 press release, second quarter results were a disappointment and were below last year's comparable quarter by a significant amount. Earnings per share for the quarter were $.10 compared to $.21 a year ago, as the weak economy drove down sales and earnings for two of our three business segments.

Second quarter combined sales and textile service revenues increased 2.7 percent to $117,002,000 from $113,940,000 in the same period last year. Pretax income was $1,399,000 in the quarter compared with $2,868,000 last year, and net income decreased 50.5 percent to $895,000 from $1,807,000 in last year's second quarter. For the first half of this year, combined sales and textile service revenues were $236,475,000 compared with $227,192,000 in last year's first half, an increase of 4.1 percent. Pretax income of $3,663,000 compared with $5,371,000 in the prior year's first half, and net income was $2,344,000 versus $3,384,000 in the same period last year, a decrease of 30.7 percent. Earnings per share in the first half this year were $.27 compared with $.39 last year.

Fortunately, our largest business segment, Textile Services, had a very strong quarter, both in terms of revenues and earnings. Revenues in this segment increased 8.2 percent to $64,846,000 compared with $59,920,000 in the second quarter last year, and operating earnings increased 24.9 percent in the quarter to $4,831,000 compared with $3,868,000 last year. In comparing the first half of this year to last, revenues have increased by $9,722,000 or 8.1 percent, and earnings have increased by $1,348,000 or 16.4 percent. The investments that we have made in labor-saving and energy-efficient equipment have begun to have a positive effect on the bottom line. Just as significantly, the closing of value-destroying operations over the past three years has also helped us to improve earnings. Value-adding sales growth has occurred in this segment as a result of our rebuilding the sales force and our focus on customer profitability and improved customer service. New business additions, net of customer losses, were at record high levels for both the second quarter and first half of this year. Textile Services serves the healthcare industry primarily, and while not recession proof, this industry is certainly more recession resistant than many other market segments that we serve at Angelica. The healthcare industry, while still under intense cost pressure, is in the best financial condition that it has been in a number of years. We intend to allocate additional resources to the Textile Services segment in order to leverage our commitment to add more shareholder value.

In the second quarter, the Manufacturing and Marketing segment's sales (before inter-segment sales) declined 4.7 percent to $37,156,000 compared with $38,978,000 last year. Operating earnings fell to $714,000 compared with $2,055,000 in the same quarter last year, a decline of 65.3 percent. We did add a number of new customers, but they purchased less than we expected, and existing customers purchased less this year than last as well. We believe that the weak economy is the principal reason for the sales shortfall, as our customers are reducing purchases to essential levels wherever possible. The Canadian operations of this segment, on the other hand, had excellent growth in sales and earnings for the quarter and first half; however, their positive results could not offset the declines at Angelica Image Apparel, the domestic operations. On an annualized basis, we have already reduced operating expenses at Image Apparel by approximately $4,000,000 and are currently implementing another round of expense reductions totaling another $1,000,000. These reductions will help us to achieve improved earnings in the second half of the year. Other corrective actions include gross

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margin improvement - through responsible pricing and improved sourcing of products non-domestically - as well as inventory reduction and simplifying the business wherever possible. This business segment had experienced positive increases in earnings in each of the last three fiscal years, and it is a disappointment to take a step backward in our turnaround efforts in the first half of this year.

Life Retail was the other business segment suffering sales and earnings declines for the quarter and year to date, also largely due to an unexpected weak economy. In the second quarter, Life Retail had a same-store sales decline of 6.2 percent, the first such decline in two and one-half years. Overall, second quarter sales declined 2.7 percent to $20,774,000 compared with $21,355,000 last year. This segment had an operating loss of $712,000 in the second quarter compared with operating earnings of $146,000 in last year's quarter. While an estimated 25 percent of nationwide healthcare apparel sales are purchased from the catalogue and e-commerce channels, Life Retail was not represented in these channels until recently. The entry cost of this has been higher than planned, primarily due to slower sales growth than we expected, but clearly Life needs to sell products through these channels. New store openings, which have totaled ten so far this year, also negatively affected earnings in this segment, but should contribute positively in the future. On the plus side, gross margins have increased in the segment this year and were at a two-year high in July. Healthcare employment continues to grow, although it appears that many healthcare employees are curtailing uniform apparel purchases at this time. We expect some recovery in earnings in the second half of the year as a result of expense control measures (including a freeze on new store openings) and are encouraged for the future when the economy strengthens.

Angelica's results so far this year are bittersweet. We are encouraged by the revenue and strong earnings growth trend in our largest business segment, Textile Services, but are discouraged by the lack of sales growth in the Manufacturing and Marketing and Life Retail business segments and the corresponding reduction in operating earnings. As we all know, business is not without risk, and in hindsight some of the decisions that we made to grow sales and earnings responsibly in these segments perhaps were ill advised given current economic conditions. Now it is up to Management to make corrections, while at the same time being careful not to overreact. It is not unlike changing a flat tire on a moving car.

Responsible revenue growth, attraction and retention of managerial talent, and avoiding margin erosion are the three biggest challenges facing CEOs in corporate America today. We face these as well, and by focusing our efforts on this challenge triumvirate, we believe we will continue to perform exceptionally well in our Textile Services segment and will be able to improve our results at Life Retail and Manufacturing and Marketing.

However, because there seems little hope of economic recovery until early next year and assuming no worsening in the meantime, we expect Angelica's results for fiscal 2002 to be equal to or possibly five percent less than the $.76 per share we earned last year. When the economy strengthens, we expect Angelica's value-building strategies will be rewarded and that shareholder value will improve.

Respectfully submitted,

/s/ Don W. Hubble

Don W. Hubble
Chairman, President and Chief Executive Officer

CONSOLIDATED STATEMENTS OF INCOME
Angelica Corporation and Subsidiaries
Unaudited (Dollars in thousands, except per share amounts)

	Second Quarter Ended		First Half Ended	
	July 28, 2001	July 29, 2000	July 28, 2001	July 29, 2000
Textile service revenues	$ 64,846	$ 59,920	$130,333	$120,611
Net sales	52,156	54,020	106,142	106,581
	117,002	113,940	236,475	227,192
Cost of textile services	51,480	47,947	102,792	95,816
Cost of goods sold	31,522	32,868	64,433	64,652
	83,002	80,815	167,225	160,468
Gross profit	34,000	33,125	69,250	66,724
Selling, general and administrative expenses	30,219	28,243	61,401	57,090
Interest expense	2,019	2,069	4,047	4,161
Other expense (income), net	363	(55)	139	102
	32,601	30,257	65,587	61,353
Income before income taxes	1,399	2,868	3,663	5,371
Provision for income taxes	504	1,061	1,319	1,987

Net income	$ 895	$ 1,807	$ 2,344	$ 3,384
Basic and diluted earnings per share *	$ 0.10	$ 0.21	$ 0.27	$ 0.39
Dividends per common share	$ 0.08	$ 0.08	$ 0.16	$ 0.32

Comprehensive income, consisting of net income and foreign currency translation adjustments, totaled $917 and $1,820 for the quarters ended July 28, 2001 and July 29, 2000, respectively; and $2,290 and $3,240 for the first halves ended July 28, 2001 and July 29, 2000, respectively.

Certain amounts in the prior year have been reclassified to conform to current year presentation.

For fiscal year 2002, the effective tax rate was adjusted downward from 37.0 percent to 36.0 percent to reflect lower actual state tax expense levels.