

ANGELICA CORP /NEW/  
Form 10-Q  
September 09, 2002

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## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

#### CONSOLIDATED STATEMENTS OF INCOME

Angelica Corporation and Subsidiaries

Unaudited (Dollars in thousands, except per share amounts)

| Second Quarter Ended |          | Fi    |
|----------------------|----------|-------|
| -----                | -----    | ----- |
| July 27,             | July 28, | July  |

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|                                                                                      | 2002       | 2001      | 2000       |
|--------------------------------------------------------------------------------------|------------|-----------|------------|
|                                                                                      | -----      | -----     | -----      |
| CONTINUING OPERATIONS:                                                               |            |           |            |
| Textile service revenues                                                             | \$ 66,795  | \$ 64,585 | \$ 135,000 |
| Net retail sales                                                                     | 21,731     | 20,774    | 46,000     |
|                                                                                      | -----      | -----     | -----      |
|                                                                                      | 88,526     | 85,359    | 181,000    |
|                                                                                      | -----      | -----     | -----      |
| Cost of textile services                                                             | 52,799     | 52,998    | 107,000    |
| Cost of goods sold                                                                   | 10,117     | 9,728     | 22,000     |
|                                                                                      | -----      | -----     | -----      |
|                                                                                      | 62,916     | 62,726    | 129,000    |
|                                                                                      | -----      | -----     | -----      |
| Gross profit                                                                         | 25,610     | 22,633    | 52,000     |
|                                                                                      | -----      | -----     | -----      |
| Selling, general and administrative expenses                                         | 21,845     | 19,639    | 43,000     |
| Interest expense                                                                     | 607        | 2,019     | 2,000      |
| Other (income) expense, net                                                          | (1,511)    | 220       | (1,000)    |
|                                                                                      | -----      | -----     | -----      |
|                                                                                      | 20,941     | 21,878    | 44,000     |
|                                                                                      | -----      | -----     | -----      |
| Income from continuing operations pretax                                             | 4,669      | 755       | 8,000      |
| Provision for income taxes                                                           | 1,401      | 68        | 2,000      |
|                                                                                      | -----      | -----     | -----      |
| Income from continuing operations before extraordinary item                          | 3,268      | 687       | 5,000      |
| Extraordinary loss on early extinguishment of debt, net of taxes of \$2,374 (Note 4) | (4,409)    | -         | (4,000)    |
|                                                                                      | -----      | -----     | -----      |
| (Loss) income from continuing operations                                             | (1,141)    | 687       | 1,000      |
|                                                                                      | -----      | -----     | -----      |
| DISCONTINUED OPERATIONS:                                                             |            |           |            |
| Income from operations of discontinued segment, net of taxes of \$437 and \$1,113    | -          | 208       | 0          |
| Loss on disposal of discontinued segment, net of taxes of \$518 and \$2,912 (Note 5) | (961)      | -         | (5,000)    |
|                                                                                      | -----      | -----     | -----      |
| (Loss) income from discontinued operations                                           | (961)      | 208       | (5,000)    |
|                                                                                      | -----      | -----     | -----      |
| Net (loss) income                                                                    | \$ (2,102) | \$ 895    | \$ (4,000) |
|                                                                                      | =====      | =====     | =====      |
| BASIC EARNINGS (LOSS) PER SHARE (NOTE 8):                                            |            |           |            |
| Income from continuing operations before extraordinary item                          | \$ 0.38    | \$ 0.08   | \$ 0.00    |
| Extraordinary loss, net of tax                                                       | (0.51)     | -         | (0.00)     |
|                                                                                      | -----      | -----     | -----      |
| (Loss) income from continuing operations                                             | (0.13)     | 0.08      | 0.00       |
| (Loss) income from discontinued operations                                           | (0.11)     | 0.02      | (0.00)     |
|                                                                                      | -----      | -----     | -----      |
| Net (loss) income                                                                    | \$ (0.24)  | \$ 0.10   | \$ (0.00)  |
|                                                                                      | =====      | =====     | =====      |
| DILUTED EARNINGS (LOSS) PER SHARE (NOTE 8):                                          |            |           |            |
| Income from continuing operations before extraordinary item                          | \$ 0.37    | \$ 0.08   | \$ 0.00    |
| Extraordinary loss, net of tax                                                       | (0.50)     | -         | (0.00)     |
|                                                                                      | -----      | -----     | -----      |
| (Loss) income from continuing operations                                             | (0.13)     | 0.08      | 0.00       |
| (Loss) income from discontinued operations                                           | (0.11)     | 0.02      | (0.00)     |
|                                                                                      | -----      | -----     | -----      |

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Net (loss) income

\$ (0.24)

\$ 0.10

\$ (0

The accompanying notes are an integral part of the financial statements.

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## CONSOLIDATED BALANCE SHEETS Angelica Corporation and Subsidiaries Unaudited (Dollars in thousands)

July 27,  
2002

### ASSETS

#### Current Assets:

|                                                     |          |
|-----------------------------------------------------|----------|
| Cash and short-term investments                     | \$ 9,163 |
| Receivables, less reserves of \$1,700 and \$1,306   | 34,407   |
| Inventories                                         | 14,529   |
| Linens in service                                   | 31,410   |
| Prepaid expenses and other current assets           | 2,538    |
| Deferred income taxes                               | 19,979   |
| Net current assets of discontinued segment (Note 5) | 14,950   |

|                      |         |
|----------------------|---------|
| Total Current Assets | 126,976 |
|----------------------|---------|

|                                  |         |
|----------------------------------|---------|
| Property and Equipment           | 175,425 |
| Less -- reserve for depreciation | 100,172 |

75,253

|                                        |        |
|----------------------------------------|--------|
| Goodwill (Note 3)                      | 4,256  |
| Other acquired assets (Note 3)         | 876    |
| Cash surrender value of life insurance | 25,661 |
| Deferred income taxes                  | 143    |
| Miscellaneous                          | 1,003  |

31,939

|                                                        |     |
|--------------------------------------------------------|-----|
| Net noncurrent assets of discontinued segment (Note 5) | 357 |
|--------------------------------------------------------|-----|

|              |            |
|--------------|------------|
| Total Assets | \$ 234,525 |
|--------------|------------|

### LIABILITIES AND SHAREHOLDERS' EQUITY

#### Current Liabilities:

|                                      |        |
|--------------------------------------|--------|
| Current maturities of long-term debt | \$ 227 |
| Accounts payable                     | 22,155 |

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|                                                        |            |
|--------------------------------------------------------|------------|
| Accrued expenses                                       | 36,638     |
|                                                        | -----      |
| Total Current Liabilities                              | 59,020     |
|                                                        | -----      |
| Long-Term Debt, less current maturities                | 23,800     |
| Other Long-Term Obligations                            | 15,164     |
| Shareholders' Equity:                                  |            |
| Common Stock, \$1 par value, authorized 20,000,000     |            |
| shares, issued: 9,471,538                              | 9,472      |
| Capital surplus                                        | 4,200      |
| Retained earnings                                      | 135,550    |
| Common Stock in treasury, at cost: 799,316 and 863,329 | (12,681)   |
|                                                        | -----      |
|                                                        | 136,541    |
|                                                        | -----      |
| Total Liabilities and Shareholders' Equity             | \$ 234,525 |
|                                                        | =====      |

The accompanying notes are an integral part of the financial statements.

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## CONSOLIDATED STATEMENTS OF CASH FLOWS Angelica Corporation and Subsidiaries Unaudited (Dollars in thousands)

|                                                                    |               |
|--------------------------------------------------------------------|---------------|
|                                                                    | First Hal     |
|                                                                    | -----         |
|                                                                    | July 27, 2002 |
|                                                                    | -----         |
| Cash Flows from Operating Activities:                              |               |
| Income from continuing operations before extraordinary item        | \$ 5,561      |
| Extraordinary loss                                                 | (4,409)       |
|                                                                    | -----         |
| Income from continuing operations                                  | 1,152         |
| Non-cash items included in income from continuing operations:      |               |
| Depreciation                                                       | 6,592         |
| Amortization                                                       | 413           |
| Change in working capital components,                              |               |
| net of businesses acquired/disposed of                             | (1,662)       |
| Utilization of restructuring reserves (Note 6)                     | (1,464)       |
| Other, net                                                         | (240)         |
|                                                                    | -----         |
| Net cash provided by operating activities of continuing operations | 4,791         |
|                                                                    | -----         |
| Cash Flows from Investing Activities:                              |               |
| Expenditures for property and equipment, net                       | (5,543)       |
| Disposals of businesses and property                               | 1,158         |
|                                                                    | -----         |

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|                                                                |          |
|----------------------------------------------------------------|----------|
| Net cash used in investing activities of continuing operations | (4,385)  |
|                                                                | -----    |
| Cash Flows from Financing Activities:                          |          |
| Long-term debt repayments on refinancing                       | (71,487) |
| Proceeds from issuance of long-term debt                       | 23,100   |
| Dividends paid                                                 | (1,380)  |
| Other, net                                                     | 673      |
|                                                                | -----    |
| Net cash used in financing activities of continuing operations | (49,094) |
|                                                                | -----    |
| Net cash provided by (used in) discontinued operations         | 39,109   |
|                                                                | -----    |
| Net decrease in cash and short-term investments                | (9,579)  |
| Balance at beginning of year                                   | 18,742   |
|                                                                | -----    |
| Balance at end of period                                       | \$ 9,163 |
|                                                                | =====    |
| Supplemental cash flow information:                            |          |
| Income taxes paid                                              | \$ 972   |
| Interest paid                                                  | \$ 3,421 |

The accompanying notes are an integral part of the financial statements.

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## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

SECOND QUARTER AND FIRST HALF ENDED  
JULY 27, 2002 AND JULY 28, 2001

### Note 1. Basis of Presentation

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The accompanying condensed consolidated financial statements are unaudited, and these consolidated statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended January 26, 2002. It is Management's opinion that all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results during the interim period have been included. All significant intercompany accounts and transactions have been eliminated. The results of operations and cash flows for the first half ended July 27, 2002 are not necessarily indicative of the results for the full year.

Certain amounts in the prior period have been reclassified to conform

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to current period presentation.

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.

## Note 2. Comprehensive (Loss) Income

Comprehensive (loss) income, consisting of net (loss) income and foreign currency translation adjustments, totaled \$(2,102,000) and \$917,000 for the quarters ended July 27, 2002 and July 28, 2001, respectively; and \$(4,256,000) and \$2,290,000 for the six months ended July 27, 2002 and July 28, 2001, respectively.

## Note 3. Goodwill and Other Intangible Assets

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill is no longer amortized effective with the Company's adoption date of January 27, 2002. 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 completed the initial impairment test of goodwill, and there was no impairment upon adoption of SFAS No. 142. As of July 27, 2002, the carrying amount of goodwill allocated to the Textile Services and Life Retail Stores segments was \$3,465,000 and \$791,000, respectively.

Following is a reconciliation of reported income from continuing operations before extraordinary item and net income (loss), including related earnings (loss) per share, to

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adjusted amounts excluding goodwill amortization (dollars in thousands, except per share amounts):

|                                                              | Second Quarter Ended |                  | First Hal        |
|--------------------------------------------------------------|----------------------|------------------|------------------|
|                                                              | July 27,<br>2002     | July 28,<br>2001 | July 27,<br>2002 |
| Income from continuing operations before extraordinary item: |                      |                  |                  |
| As reported                                                  | \$ 3,268             | \$ 687           | \$ 5,561         |
| Goodwill amortization, net of taxes                          | -                    | 70               | -                |

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|                                     |            |         |            |
|-------------------------------------|------------|---------|------------|
| As adjusted                         | \$ 3,268   | \$ 757  | \$ 5,561   |
|                                     | =====      | =====   | =====      |
| Basic earnings per share:           |            |         |            |
| As reported                         | \$ 0.38    | \$ 0.08 | \$ 0.64    |
| As adjusted                         | 0.38       | 0.09    | 0.64       |
| Diluted earnings per share:         |            |         |            |
| As reported                         | \$ 0.37    | \$ 0.08 | \$ 0.63    |
| As adjusted                         | 0.37       | 0.09    | 0.63       |
| Net (loss) income:                  |            |         |            |
| As reported                         | \$ (2,102) | \$ 895  | \$ (4,256) |
| Goodwill amortization, net of taxes | -          | 72      | -          |
|                                     | -----      | -----   | -----      |
| As adjusted                         | \$ (2,102) | \$ 967  | \$ (4,256) |
|                                     | =====      | =====   | =====      |
| Basic earnings (loss) per share:    |            |         |            |
| As reported                         | \$ (0.24)  | \$ 0.10 | \$ (0.49)  |
| As adjusted                         | (0.24)     | 0.11    | (0.49)     |
| Diluted earnings (loss) per share:  |            |         |            |
| As reported                         | \$ (0.24)  | \$ 0.10 | \$ (0.49)  |
| As adjusted                         | (0.24)     | 0.11    | (0.49)     |

During the second quarter ended July 27, 2002, there were no material acquisitions of other acquired assets, and no material changes in the carrying amount of goodwill. Other acquired assets consisted of the following (dollars in thousands):

|                       | July 27, 2002         |                          |                            |                       |
|-----------------------|-----------------------|--------------------------|----------------------------|-----------------------|
|                       | Gross Carrying Amount | Accumulated Amortization | Other Acquired Assets, net | Gross Carrying Amount |
| Customer contracts    | \$4,345               | \$ (4,275)               | \$ 70                      | \$4,599               |
| Non-compete covenants | 2,590                 | (1,784)                  | 806                        | 2,590                 |
| Other acquired assets | \$6,935               | \$ (6,059)               | \$876                      | \$7,189               |

Other acquired assets are scheduled to be fully amortized by fiscal year 2007 with corresponding annual amortization expense estimated for each fiscal year as follows (dollars in thousands):

|      |       |
|------|-------|
| 2003 | \$619 |
| 2004 | 318   |
| 2005 | 185   |

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|      |     |
|------|-----|
| 2006 | 101 |
| 2007 | 76  |

### Note 4. Extraordinary Item

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During the second quarter of this fiscal year, the Company incurred a loss on early extinguishment of debt of \$6,783,000 (\$4,409,000 net of tax). The loss was due to a prepayment penalty of \$6,684,000 paid to lenders in connection with the complete refinancing of the Company's debt following the sale of the Manufacturing and Marketing segment (plus the writeoff of unamortized loan fees of \$99,000). In accordance with SFAS No. 4, the loss has been treated as an extraordinary item. Under recently issued SFAS No. 145, effective next fiscal year, the loss on early extinguishment of debt will not be treated as an extraordinary item, and accordingly, results will be restated at that time to reflect this change in accounting treatment.

### Note 5. Discontinued Operations

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The consolidated balance sheets as of July 27, 2002 and January 26, 2002 reflect the segregation of the net assets of the discontinued Manufacturing and Marketing segment and writedown of those assets to their estimated net realizable value, as well as estimates of the costs of disposal and transition. The differences between these estimates as of July 27, 2002 and January 26, 2002 resulted in the recording of an after-tax loss on disposal of \$4,447,000 in the first quarter and \$961,000 in the second quarter. The sale of certain assets of this segment's non-healthcare business to Cintas Corporation closed on April 19, 2002, and the sale of certain assets of the healthcare business to Medline Industries closed on May 17, 2002. The realization of total proceeds from the sale of assets, primarily inventory and accounts receivable, is subject to subsequent sale and collection activities, respectively, of the buyers. These amounts are included in the net assets of the discontinued segment at their estimated net realizable values.

### Note 6. Restructuring Activities

-----

In the second quarter of fiscal 2003, the Company closed an additional two underperforming Life Retail stores, bringing the total stores closed in the first half to 22 of the 27 stores included in the plan of restructuring. A total of \$329,000 and \$1,464,000 was charged to the restructuring reserve and related asset valuation allowances in the second quarter and first half, respectively. The total first half charge of \$1,464,000 represents \$529,000 to write off net book value of assets in closed stores, \$480,000 to dispose of inventory and \$455,000 for lease termination costs. As of July 27, 2002, the restructuring reserve and related asset valuation allowances totaled \$2,716,000.

### Note 7. Business Segment Information

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The Company has operated principally in three industry segments: Textile Services, Manufacturing and Marketing, and Retail Stores. For fiscal years 2003 and 2002, Manufacturing and Marketing is being treated as a discontinued operation. Textile Services provides textile rental, laundry and linen management services to healthcare institutions. Life Retail

Stores operates a nationwide chain of specialty uniform and shoe stores, together with a fully-integrated catalogue and e-commerce operation, selling to healthcare professionals. All of the Company's services of its continuing business segments are provided in the United States. Summary data about each of the Company's continuing business segments for the second quarter and first half ended July 27, 2002 and July 28, 2001 appears below (dollars in thousands):

|                                             | Second Quarter Ended |                  | First Hal        |
|---------------------------------------------|----------------------|------------------|------------------|
|                                             | July 27,<br>2002     | July 28,<br>2001 | July 27,<br>2002 |
| Combined sales and revenues:                |                      |                  |                  |
| Textile Services                            | \$ 66,795            | \$ 64,585        | \$ 135,176       |
| Retail Sales                                | 21,731               | 20,774           | 46,607           |
|                                             | =====                | =====            | =====            |
|                                             | \$ 88,526            | \$ 85,359        | \$ 181,783       |
|                                             | =====                | =====            | =====            |
| Income from continuing operations pretax:   |                      |                  |                  |
| Textile Services                            | \$ 6,478             | \$ 4,831         | \$ 12,362        |
| Retail Sales                                | 151                  | (712)            | 852              |
| Interest, corporate expenses and other, net | (1,960)              | (3,364)          | (5,018)          |
|                                             | =====                | =====            | =====            |
|                                             | \$ 4,669             | \$ 755           | \$ 8,196         |
|                                             | =====                | =====            | =====            |
| Depreciation and amortization:              |                      |                  |                  |
| Textile Services                            | \$ 3,322             | \$ 2,425         | \$ 5,621         |
| Retail Sales                                | 580                  | 661              | 1,142            |
| Corporate                                   | 160                  | 203              | 242              |
|                                             | =====                | =====            | =====            |
|                                             | \$ 4,062             | \$ 3,289         | \$ 7,005         |
|                                             | =====                | =====            | =====            |

#### Note 8. Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of Common Stock outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of Common and Common equivalent shares outstanding.

The following table reconciles weighted average shares outstanding to amounts used to calculate basic and diluted earnings (loss) per share for the second quarter and first half ended July 27, 2002 and July 28, 2001 (shares in thousands):

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|                                                              | Second Quarter Ended |                  | First Hal        |
|--------------------------------------------------------------|----------------------|------------------|------------------|
|                                                              | July 27,<br>2002     | July 28,<br>2001 | July 27,<br>2002 |
| Weighted average shares:                                     |                      |                  |                  |
| Average shares outstanding                                   | 8,654                | 8,602            | 8,635            |
| Effect of dilutive securities - option shares                | 151                  | 114              | 135              |
| Average shares outstanding, adjusted for<br>dilutive effects | 8,805                | 8,716            | 8,770            |

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Note 9. New Accounting Pronouncements

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses the recognition and measurement of certain costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company has not determined the impact, if any, of SFAS No. 146 on financial condition and results of operations for fiscal 2003 upon adoption.

Note 10. Subsequent Events

As discussed in Item 3 below, the Company entered into an interest-rate swap agreement with one of its lenders effective September 9, 2002. The swap fixes the interest rate at 4.83 percent on \$10,000,000 of the outstanding debt under the line of credit until maturity on May 30, 2007. The Company has not determined the impact, if any, on financial condition and results of operations for fiscal 2003 of accounting for the interest-rate swap as a derivative instrument in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SECOND QUARTER AND FIRST HALF ENDED JULY 27, 2002  
COMPARED WITH  
SECOND QUARTER AND FIRST HALF ENDED JULY 28, 2001

#### Analysis of Operations

Second quarter and first half combined sales and revenues from continuing operations increased 3.7 percent and 4.1 percent, respectively, over the comparable prior year periods. The Company earned \$.38 per share (\$.37 diluted) from continuing operations before extraordinary item in the second quarter, representing a 375.0 percent increase over the \$.08 earned in last year's second quarter. As with the first quarter this year, both of the Company's continuing business segments, Textile Services and Life Retail Stores, posted top-line growth as well as operating earnings increases in the quarter. First half earnings per share from continuing operations before extraordinary item were \$.64 (\$.63 diluted) compared to \$.24 a year ago, an increase of 166.7 percent.

As discussed in Note 4, the Company incurred an extraordinary loss of \$4,409,000 net of tax in the second quarter this year as a result of a prepayment penalty paid in connection with refinancing the Company's debt. Including this extraordinary loss of \$.51 per share (\$.50 diluted), results of continuing operations were a loss of \$.13 per share in the second quarter and income of \$.13 per share in the first half.

In the second quarter this year, an additional after-tax loss of \$961,000 (\$.11 per share) on the disposal of the discontinued Manufacturing and Marketing segment was recorded in discontinued operations to reflect differences between current and prior estimates. Discontinued operations earned \$.02 per share in last year's second quarter. Net loss after combining continuing and discontinued operations and the extraordinary loss was \$.24 per share in the second quarter and \$.49 per share in the first half this year compared with net income per share of \$.10 and \$.27 in the comparable prior year periods, respectively.

#### Textile Services

Revenues of the Textile Services segment increased 3.4 percent in the second quarter and were up 4.1 percent for the first half of the year on the continued strength of net new business additions. Operating earnings rose 34.1 percent in the quarter and 29.2 percent in the first half due to the revenue increase combined with good control over linen expense and production expenses, including labor and utilities. Gross margin of 21.0 percent for the quarter exceeded the 17.9 percent margin of the prior year's second quarter. During the second quarter, the Textile Services segment sold its underperforming Denver, Colorado plant, which reduced revenues by approximately \$600,000 but resulted in a gain on the sale of \$474,000.

#### Life Retail Stores

Second quarter sales at Life Retail Stores increased 4.6 percent on the strength of a same-store sales increase of 6.7 percent following a same-store sales increase of 2.5 percent in the first quarter and compared to a 6.2 percent same-store sales decrease in last year's second quarter.

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The sales increase was achieved despite the loss of approximately \$1,200,000 in sales due to

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having 23 fewer stores in operation compared to last year. For the first half of the year, sales were up 4.3 percent resulting from a same-store sales gain of 4.3 percent versus a decline of 2.1 percent in the same period last year. Catalogue and e-commerce sales continue to improve over prior year levels, with increases of 63.2 percent to \$1,116,000 in the second quarter and 104.2 percent to \$2,587,000 in the first half. The segment's gross margin of 53.4 percent in the quarter and 52.4 percent in the half improved slightly from 53.2 percent and 52.2 percent in last year's quarter and half, respectively. Primarily as a result of the sales increases and the closing of underperforming stores, operating earnings of this segment improved to \$151,000 in the second quarter and \$852,000 in the first half compared with operating losses of \$712,000 and \$773,000 in the second quarter and first half last year, respectively.

### Operating Expenses and Other

Selling, general and administrative expenses increased 11.2 percent in the second quarter, representing 24.7 percent of combined sales and revenues from continuing operations compared with 23.0 percent in the same period last year. For the first half, these expenses increased 9.9 percent to 24.1 percent of combined sales and revenues from continuing operations from 22.8 percent a year ago. The increases in the second quarter and first half are due mainly to higher incentive compensation. A \$1,412,000 reduction in interest expense in the second quarter this year (\$1,897,000 decrease for the half) reflects the much lower level of debt outstanding after the refinancing coupled with lower interest rates. Net other income of \$1,511,000 in this year's second quarter includes the gain on the sale of the Denver plant and \$549,000 from the elimination of the intercompany profit in inventory reserve due to the sale of the Manufacturing and Marketing segment. The effective tax rate on income from continuing operations of 9.0 percent in the first half last year is lower than the 32.2 percent in this year's first half due to the impact of permanent differences on the relatively low level of income in fiscal 2002.

### Discontinued Operations

As described in Note 5, the Company recorded an additional pretax loss on disposal of the Manufacturing and Marketing segment of \$1,479,000 in the second quarter, bringing the year-to-date pretax loss to \$8,320,000. The first half loss on discontinued operations is in addition to the \$36,734,000 pretax loss recorded in the prior year, and is primarily attributable to a reduction in the value of the inventories of this segment realized in closing the sales or expected to be recovered subsequently. The assets of the segment that were not sold, primarily inventory, are expected to be liquidated during the remainder of fiscal 2003. Although Management believes that its estimates used to write down the assets and record the loss on disposal of the assets as of July 27, 2002 are reasonable, there is a risk that the actual value received upon ultimate disposition of all of the segment's assets, including actual costs of disposal and transition, may differ materially from these estimates. Such risks relate primarily to

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realization of the estimated net realizable value of the remaining inventory through sale activities of the buyers and the Company.

### Restructuring Activities

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See Note 6 for a discussion of the Company's utilization of the restructuring reserve and related asset valuation allowances in the second quarter and first half of fiscal 2003. As of July 27, 2002, there was \$2,716,000 of restructuring reserve and asset valuation allowances remaining, of which \$1,809,000 is for lease termination costs that are being negotiated for 21 Life Retail

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stores closed or to be closed in fiscal 2003. It is Management's opinion that the remaining restructuring reserve and related asset valuation allowances are adequate. However, actual charges to the reserve and related asset valuation allowances may differ significantly, which could result in additional costs. Any additional costs would most likely result from the Company's inability to terminate the leases of the closed stores for the amounts reserved.

### Financial Condition, Liquidity and Capital Resources

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On May 30, 2002, the Company repaid \$54,375,000 of existing debt (plus a prepayment penalty of \$6,684,000 as discussed in Note 4) using proceeds from the sale of the Manufacturing and Marketing segment and \$22,500,000 of borrowings from a new three-year \$70,000,000 unsecured revolving credit facility. The unused portion of the credit line will be utilized to fund growth in continuing operations, including acquisitions, and for working capital needs. The refinancing is expected to reduce future interest expense as a result of lower debt levels and lower interest rates. At July 27, 2002, the Company's debt was 15.0 percent of total capitalization and its current ratio was 2.2 to 1 as compared with 33.9 percent and 1.4 to 1 as of January 26, 2002, respectively. As of July 27, 2002, the Company was in compliance with all financial covenants contained in its debt agreements.

Cash generated by operating activities of continuing operations was \$10,664,000 in the first half excluding the extraordinary loss and utilization of restructuring reserves. This represents a \$7,431,000 increase over last year's first half due mainly to higher earnings and better management of accounts receivable and linens in service in the Textile Services segment. Capital expenditures are down \$760,000 in the first half versus last year, but are expected to exceed last year's level for the entire year. Cash flows used in financing activities of continuing operations of \$49,094,000 in the first half reflect the complete refinancing of the Company's debt during the second quarter. Cash provided by discontinued operations of \$39,109,000 in the first half reflects the proceeds from the liquidation of assets of the Manufacturing and Marketing segment. Cash and short-term investments totaled \$9,163,000 at July 27, 2002, down from \$13,271,000 a year ago and \$18,742,000 at the beginning of the year.

Management believes that the Company's financial condition is such that internal and external resources are sufficient and available to satisfy the

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Company's requirements for debt repayment, as well as future requirements for capital expenditures, acquisitions, dividends and working capital.

### 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, actual value received on disposition of the Manufacturing and Marketing segment significantly different than the estimated net realizable value, actual charges to the

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restructuring reserve and related asset valuation allowances significantly different than the estimated charges, unusual or unexpected cash needs for operations or capital transactions, the ability to obtain financing in required amounts and at appropriate rates, and other factors which may be identified in the Company's filings with the Securities and Exchange Commission.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to commodity price risk related to the use of natural gas in laundry plants of the Textile Services segment. The total cost of natural gas in the second quarter and first half ended July 27, 2002 was \$1,887,000 and \$4,434,000, respectively. To reduce the uncertainty of fluctuating energy prices, the Company has entered into fixed price contracts for approximately 70% of the segment's natural gas purchase requirements for the remainder of fiscal 2003. A 10% increase in the cost of natural gas not covered by these contracts would result in a reduction of approximately \$266,000 in annual pretax earnings.

The Company's exposure to interest rate risk relates primarily to its new debt obligations entered into in the second quarter. As discussed in Item 2 above, the Company refinanced its existing debt partially by using borrowings of \$22,500,000 from a new \$70,000,000 three-year revolving credit facility. The revolving line of credit and the term loan bear interest at a rate equal to either (i) LIBOR plus a margin, or (ii) a Base Rate plus a margin. The margins are based on the Company's ratio of "Funded Debt" to "EBITDA," as each is defined in the Loan Agreement. As of July 27, 2002, there was \$23,100,000 of outstanding debt under the credit facility. A hypothetical increase of 100 basis points in short-term interest rates would result in a reduction of approximately \$231,000 in annual pretax earnings. To mitigate the exposure from variable-rate debt, the Company entered into an interest-rate swap agreement with one of its lenders effective September

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9, 2002. The swap fixes the interest rate at 4.83 percent on \$10,000,000 of the outstanding debt under the line of credit until maturity on May 30, 2007.

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### PART II. OTHER INFORMATION

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

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At the Annual Meeting of Shareholders held on May 29, 2002, the only matter submitted to a vote of shareholders was the election of Directors.

The following Directors were elected to the following term (or until a successor is elected and has qualified or until his earlier death, resignation or removal):

| NAME<br>----                                  | VOTES<br>"FOR"<br>----- | VOTES<br>"WITHHE<br>----- |
|-----------------------------------------------|-------------------------|---------------------------|
| For Term expiring at the 2005 Annual Meeting: |                         |                           |
| Charles W. Mueller.....                       | 8,115,675               | 38,09                     |
| William A. Peck.....                          | 8,099,760               | 54,01                     |

The following Directors are continuing current terms expiring at the 2003 Annual Meeting: David A. Abrahamson, Alan C. Henderson, and Stephen M. O'Hara. The following Directors are continuing current terms expiring at the 2004 Annual Meeting: Susan S. Elliott, Don W. Hubble, and Kelvin R. Westbrook.

Brokers were permitted to vote on the election of Directors in the absence of instructions from street-name holders; therefore broker non-votes did not occur in this matter.

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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- (a) See Exhibit Index included herein on page 17.
- (b) REPORTS ON FORM 8-K - On July 2, 2002, the Company filed a report on Form 8-K/A as Amendment No. 1 to the Company's reports on Form 8-K, dated April 19, 2002 and May 17, 2002 in connection with the sale of the Manufacturing and Marketing segment to Cintas Corporation and Medline Industries, Inc., to provide under Item 7 a narrative description of the pro forma financial effects of these sale transactions.

A report on Form 8-K dated August 15, 2002 was filed under Item 9

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which included the Quarterly Report to Shareholders dated August 15, 2002 (and mailed to shareholders on August 22, 2002) as an exhibit, pursuant to Regulation FD.

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SIGNATURES

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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.

Angelica Corporation

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(Registrant)

Date: September 9, 2002

/s/ T. M. Armstrong

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T. M. Armstrong

Senior Vice President -

Finance and Administration

Chief Financial Officer

(Principal Financial Officer)

/s/ James W. Shaffer

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James W. Shaffer

Vice President and Treasurer

(Principal Accounting Officer)

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CERTIFICATIONS

I, Don W. Hubble, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Angelica Corporation;
- (2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the

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period covered by this quarterly report; and

- (3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

September 9, 2002

/s/ Don W. Hubble

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Don W. Hubble  
Chairman, President and  
Chief Executive Officer

I, T. M. Armstrong, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Angelica Corporation;
- (2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and
- (3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

September 9, 2002

/s/ T. M. Armstrong

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T. M. Armstrong  
Senior Vice President - Finance  
& Administration and Chief  
Financial Officer

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EXHIBIT INDEX

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| Exhibit<br>Number | Description |
|-------------------|-------------|
| -----             | -----       |