

JPS INDUSTRIES INC  
Form 10-K  
January 30, 2004  
Table of Contents

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### FORM 10-K

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**x Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended November 1, 2003.

**.. 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*

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## JPS INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

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Delaware  
(State of other jurisdiction of  
incorporation or organization)

555 North Pleasantburg Drive, Suite 202, Greenville, SC  
(Address of principal executive offices)

57-0868166  
(I.R.S. Employer  
Identification No.)

29607  
(Zip Code)

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Registrant's telephone number, including area code: (864) 239-3900

Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, Par Value \$.01 per share, 22,000,000 shares authorized;

10,000,000 shares issued, 9,494,259 outstanding.

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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  No

Indicate by check mark whether the registration: is an accelerated filer (as defined in Rule 12b-2 of The Exchange Act): Yes  No

Indicate by check mark if disclosure of delinquent filers, pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K:

As of January 16, 2004, the aggregate market value of the Registrant's Common Stock held by non-affiliates, based upon the closing price of the Common Stock on January 16, 2004, as reported by the NASDAQ National Market, was approximately \$24,610,362.

As of the date hereof, 10,000,000 of the registrant's Common Stock \$.01 par value per share were issued and 9,494,259 were outstanding.

The Registrant's Definitive Proxy Statement for the Annual Meeting of Stockholders to be held on March 11, 2004 is incorporated by reference in Part III of this Form 10-K to the extent stated herein.

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**Table of Contents**

JPS INDUSTRIES, INC.

Table of Contents

PART I

Item 1.	<u>BUSINESS</u>	3
Item 2.	<u>PROPERTIES</u>	8
Item 3.	<u>LEGAL PROCEEDINGS</u>	8
Item 4.	<u>SUBMISSION OF MATTERS TO A VOTE OF SECURITYHOLDERS</u>	9

PART II

Item 5.	<u>MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS</u>	9
Item 6.	<u>SELECTED FINANCIAL DATA</u>	10
Item 7.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	12
Item 7A.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK</u>	18
Item 8.	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	19
Item 9.	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	41
Item 9A.	<u>CONTROLS AND PROCEDURES</u>	41

PART III

Item 10.	<u>DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT</u>	42
Item 11.	<u>EXECUTIVE COMPENSATION</u>	42
Item 12.	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	42
Item 13.	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	42
Item 14.	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	42

PART IV

Item 15.	<u>EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K</u>	42
	<u>INDEX TO EXHIBITS</u>	44
	<u>SIGNATURES</u>	47

**Table of Contents**

PART I

**ITEM 1. BUSINESS.**

**General**

Unless the context otherwise requires, the terms "JPS" and the "Company" as used in this Form 10-K mean JPS Industries, Inc. and JPS Industries, Inc. together with its subsidiaries, respectively.

The Company is a major U.S. manufacturer of extruded urethanes, polypropylenes and mechanically formed glass substrates for specialty industrial applications. JPS specialty industrial products are used in a wide range of applications, including: printed electronic circuit boards; advanced composite materials; aerospace components; filtration and insulation products; surf boards; construction substrates; high performance glass laminates for security and transportation applications; plasma display screens; commercial and industrial roofing systems; reservoir covers; and medical, automotive and industrial components. Headquartered in Greenville, South Carolina, the Company operates manufacturing locations in Slater, South Carolina; Westfield, North Carolina; and Easthampton, Massachusetts.

JPS is a Delaware corporation incorporated in 1986 and has been publicly held since the completion of its financial restructuring under chapter 11 of the U.S. Bankruptcy Code in October 1997. The Company's common stock is listed in the NASDAQ National Market System under the stock symbol "JPST".

**Business Segments**

The Company currently operates in two reportable business segments (each of which constitutes a separate and distinct division) "JPS Elastomerics" and "JPS Glass." Item 7 of this Form 10-K, *Management's Discussion and Analysis of Financial Condition and Results of Operation*, discloses the sales, profitability and net assets of each segment. Each division has independent administrative, manufacturing and marketing capabilities for all material aspects of their operations, including product design, technical development, customer service, purchasing and collections. JPS's corporate group is responsible for finance, strategic planning, legal, tax and regulatory affairs for its subsidiaries. Corporate costs are allocated to the divisions for segment reporting purposes. The following discussion provides general information as it relates to each division:

*JPS Elastomerics*

Through its JPS Elastomerics division, the Company is a market leader in the manufacturing and marketing of scrim-reinforced, heat-weldable, single-ply roofing membrane that is sold globally through a network of roofing distributors. The Company offers a polypropylene-based material, a Hypalon® (chlorosulfonated polyethylene)-based material and a PVC-based material. These products, marketed under Stevens® Roofing Systems, are sold primarily to roofing distributors and contractors who install new and retrofitted roofs for commercial, industrial and institutional construction. The Company is a major manufacturer and global marketer of polyurethane film, sheet, tubing, cord and profile for a myriad of applications in security, athletic, automotive, medical, industrial and consumer products industries.

*JPS Glass*

Through its JPS Glass segment, the Company manufactures and markets mechanically formed fiberglass substrates. Fiberglass substrates exhibit dimensional stability, moisture resistance, high strength, fire and chemical resistance, low dielectric properties and thermal conductivity, and as a result of these many attributes, they provide an excellent platform for the construction of printed circuit boards, substrates for exterior insulation facing systems, filtration products, surfboard substrates, composite materials for aerospace applications, and numerous other technical, industrial applications.

## **Table of Contents**

The Company is a leading producer of AstroQuartz® substrates formed from quartz filaments to produce sophisticated electronic circuit boards and extremely high temperature thermal insulation for the defense and civilian aerospace industries. The Company also offers its patented AcidFlex® and UltraFlex® filtration products to industrial manufacturers.

### **Manufacturing**

#### *JPS Elastomerics*

The Elastomerics division operates two facilities and employs approximately 255 employees. Construction products are produced from raw materials, where they are blended to proprietary specifications along with fire-retardant and UV stabilizers and then calendered.

Polyurethane products are extruded in highly engineered blown film and flat sheet extrusion processes from urethane resins and additives. Depending on end uses, some materials are manufactured in class 10,000 clean zone environments.

#### *JPS Glass*

The Glass division operates one facility and employs approximately 315 employees. The Company purchases fiberglass and other specialty materials to mechanically form substrates which have proprietary finishes applied to meet individual customer specifications. These proprietary finishes are designed to act as the bonding agent between the fiberglass substrate and the customer's value-added application. In almost every case, the customer's product would have lower or unacceptable performance without the proprietary finish. These finishes are customer specific and developed over years of trial and development. All products are manufactured to customer specification and require certification to either military or customer specification prior to shipment.

### **Raw Materials**

The Company maintains good relationships with its suppliers and has, where possible, diversified its supplier base in order to avoid a disruption of supply. In most cases, the Company's raw materials are staple goods that are readily available from domestic and international fiberglass and chemical manufacturers. For several products, however, branded goods or other circumstances prevent such a diversification, and an interruption of the supply of these raw materials could have a significant negative impact on the Company's ability to produce certain products. The construction products group has negotiated comprehensive supply agreements for all its polymer, chemical and accessory products, with multiple production sites assuring an uninterrupted supply. The urethane products group purchases under contract from all major thermoplastic polyurethane suppliers. The Company believes that its practice of purchasing such items from large, stable companies minimizes the risk of interrupting the supply of raw materials.

### **Marketing and Competition**

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The following is a discussion of marketing and competitive factors as they relate to each of the Company's divisions:

### *JPS Elastomerics*

The commercial roofing industry is highly competitive with a number of major participants in all segments of the industry, with many of the Company's competitors significantly larger in terms of aggregate sales. In the Specialty segment of the single-ply market where the Company competes, there are more than 10 competitors. Industry capacity additions in 2000 and 2001 are likely to keep prices under pressure as commercial construction has declined in 2002 and 2003.

## **Table of Contents**

The Company markets its products under the Stevens® Roofing Systems brand name using a push-pull strategy: pushing products through distribution to the roofing contractor and pulling products through the market by creating demand on the part of building owners, architects and specifiers.

The Company has approximately 33 field sales staff as well as a network of independent representatives, distributors and distributor-representatives as its sales force. In addition, the Company has a distribution and marketing agreement with Trelleborg Building Systems, AB covering most of Europe and a licensing program in Asia. Marketing efforts in the roofing industry include (i) developing new products to meet changing market demands, (ii) providing proprietary accessory products, (iii) implementing contractor-specific programs and (iv) expanding national account efforts.

Geomembrane products are sold to a select group of fabricators and installers. The Company's marketing efforts are focused on supporting those companies in a variety of ways.

The Company's urethane products are marketed under the Stevens® brand and through both direct sales personnel and a nationwide network of independent representatives. The Company's products are sold to specification and each application has specific end-use performance requirements. As with the construction products, marketing efforts for urethane are multifaceted with new product development and engineering being critical factors to the success of these products.

### *JPS Glass*

The glass substrate business is highly competitive and globally influenced because of the significant capacity that exists in Europe, Asia and North America. The Company believes itself to be the third largest North American producer of glass substrates, where the majority of its products are sold. Importantly, it is well positioned because of the balance between its electrical components, fiberglass reinforced composites, construction and insulation product lines. Additionally, within the electrical substrate product line (i.e., printed circuit boards), the Company's ability to commit substantially all of its capacity to light weight substrates is a market strength because they are used in a vast array of growing consumer product markets, such as cell phones, computers, pagers, as well as the electronic infrastructure for the internet.

The Company's glass products are marketed through a combination of direct sales and distributors, with the central focus being development of customer specific finishes that enhance their respective value added processes.

### **Customers**

No customer accounts for more than 10% of the Company's sales. However, the loss of certain of our more significant customers could have a material adverse effect on our results of operations.

### **Product Development**

The following is a discussion of product development as it relates to each of the Company's divisions:

*JPS Elastomerics*

On-going product development and process improvement activities include a constant evaluation of new advanced polymers and polymer compounds, as well as the evaluation and analysis of material additives required in the manufacture of commercial roofing products, geomembranes and thermoplastic polyurethane. As appropriate, additives are required to ensure long-term UV stability, fire or chemical resistance or to ensure that a specific product can be used in contact with drinking water.

## **Table of Contents**

For its roofing products, the Company continues to develop advanced material products that meet fire, wind and other building code requirements on a global basis. Such building codes vary from country to country, and even regionally, presenting a challenge to the manufacturer. Geomembranes must also meet stringent code requirements of several countries, particularly when used in potable water reservoirs.

The Company offers both aliphatic and aromatic polyurethane products. Aliphatic materials, which are used in glass clad polycarbonate laminates for security-glazing applications, are extruded in a clean zone environment to ensure maximum product cleanliness. Aromatic materials are extruded by blown film and flat sheet technologies. The Company spends a considerable amount of R&D effort to develop compounds to specifically meet customer needs. In addition, the Company provides specific surface finishes, textures, colors, etc. that may be required for end-use applications.

### *JPS Glass*

R&D efforts include the continued refinement of silane chemistry and substrate processing, for high Tg resin systems, CAF (Conductive Anodic Filamentation) improvement and HDI (High Density Interlock) for improved laser drillability in the printed circuit board industry, development of soft moldable finishes for the building products industry, high-flex finishes to extend the life of filtration substrates for the power generation industry, and new low cost materials for the mechanically needled insulation industry. The product development effort is an ongoing customer specific process that is enhanced by the involvement of the division's vendor partners with the division's highly skilled research department.

## **Backlog**

Unfilled open orders, which the Company believes are firm, were \$8.7 million at November 1, 2003 and \$9.2 million at November 2, 2002. The Company generally fills its open orders in the following fiscal year and the Company expects that all of the open orders as of November 1, 2003, will be filled in the 52-week period ending October 30, 2004 (Fiscal 2004). The Company believes that the amount of backlog provides limited indication of the sales volume that can be expected in coming months, and changes in customer ordering behavior or economic conditions may result in deferral or acceleration of orders which may affect sales volume for a given period.

No significant portion of the Company's business is subject to renegotiation of profits, or termination of contracts or subcontracts at the election of the government.

## **Patents, Licenses and Trademarks**

The following is a discussion of patent licenses and trademarks as they relate to each of the Company's divisions:

### *JPS Elastomerics*

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Products, such as commercial roofing, geomembranes and polyurethane, are marketed under the Stevens brand name. As such, the Company is in the process of securing U.S. trademarks for the following names: Stevens Roofing Systems, Stevens Geomembranes and Stevens Urethane. In addition, the Company currently holds U.S. trademarks on the names Hi-Tuff® and Hi-Tuff Plus®. The Company also holds trademarks for the Hi-Tuff name in Canada, Mexico and certain European and Asian countries.

## **Table of Contents**

In terms of product licensing, Stevens roofing and geomembrane compound and manufacturing technologies have been licensed to TPI for the production and marketing of membranes in Japan, and the Company has entered into an agreement with Trelleborg Building Systems AB for marketing of the Company's roofing products in Europe.

### *JPS Glass*

A total of four patents and 36 trademarks are secured or are in the process of being secured by the Company for its Glass business. These include, but are not limited to: alkali resistant meshes for Exterior Insulation Facing Systems trademarked under the names of Versaflex®, Duraflex®, Ultraflex®, Standardflex® and Gorilla-Mesh; filtration products trademarked under the names AcidFlex®, AcidBond and Ultraflex®; substrates meeting high temperature requirements trademarked under the names, Tempratex® and Industro-Quartz; special laser drillable substrates under the trademark APS (Ablative Precision Substrate); and Quartz Hybrid substrates with the Astralar® and AstroCarb® trademarks.

### **Employees**

As of November 1, 2003, the Company had 578 active employees of which 418 were hourly and 160 were salaried. None of the Company's employees are represented by unions. The Company believes it has good relations with its employees.

### **Environmental and Regulatory Matters**

The Company is subject to various Federal, state and local government laws and regulations concerning, among other things, the discharge, storage, handling and disposal of a variety of hazardous and non-hazardous substances and wastes. The Company's plants generate small quantities of hazardous waste that are either recycled or disposed of off-site by or at licensed disposal or treatment facilities.

The Company believes that it is in substantial compliance with all existing environmental laws and regulations to which it is subject. In addition, the Company is subject to liability under environmental laws relating to the past release or disposal of hazardous materials. To date, and in management's belief for the foreseeable future, liability under and compliance with existing environmental laws has not had and will not have a material adverse effect on the Company's financial or competitive positions. No representation or assurance can be made, however, that any change in Federal, state or local requirements or the discovery of unknown problems or conditions will not require substantial expenditures by the Company.

### **Seasonality**

Certain portions of the business of the Company are seasonal (principally construction products) and sales of these products tend to decline during winter months in correlation with construction activity. These declines have historically tended to result in lower sales and operating profits in the first and second quarters than in the third and fourth quarters of the Company's fiscal year.

**Working Capital**

Information regarding the Company's working capital position and practices is set forth in Item 7 of this Form 10-K under the caption "Liquidity and Capital Resources."

Financial information for the JPS Elastomerics and JPS Glass segments is set forth in Note 10 to the Consolidated Financial Statements included in Item 8 herein.

**Table of Contents****Cautionary Statement Concerning Forward Looking Statements**

Certain statements contained in this Annual Report on Form 10-K 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 Annual Report on Form 10-K that a number of important factors could cause the Company's actual results in Fiscal 2003 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 the Company's industries, actions of competitors, changes in demand in certain markets, the Company's ability to meet its debt service and pension plan obligations (including its ability to meet the financial covenant obligations in its credit agreement and negotiate a new credit facility upon maturity of its existing credit facility), the Company's ability to realize its deferred tax asset, the seasonality of the Company's sales, the volatility of the Company's raw material, claims and energy costs, the Company's dependence on key personnel and certain large customers and other risk factors described from time to time in the Company's filings with the Securities and Exchange Commission.

Stockholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are only made as of the date of this report and the Company undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

**ITEM 2. PROPERTIES.**

The following table sets forth certain information relating to the Company's principal facilities (segment information relates to principal use). All of the facilities are owned and are used for manufacturing.

<u>JPS Elastomerics</u>		<u>JPS Glass</u>	
<u>Location</u>	<u>Square Footage</u>	<u>Location</u>	<u>Square Footage</u>
Westfield, NC	237,000	Slater, SC	433,000
Easthampton, MA	50,000		

The Company also leases certain other warehouse facilities, various regional sales offices and its corporate headquarters. The Company believes that all of its facilities are suitable and adequate for the current and anticipated conduct of its operations.

**ITEM 3. LEGAL PROCEEDINGS.**

The Company is a party to lawsuits in the normal course of its business including certain asbestos-based claims. The Company believes that it has meritorious defenses in all lawsuits in which the Company or its subsidiaries is a defendant. 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.

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As previously reported, 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. Also as previously reported, in July, 2002, the Company's insurance carrier, Liberty Mutual Insurance Company ( Liberty ), informed the Company that it no longer believed it had an obligation to contribute to settlement or defense of this matter. The Company subsequently filed a lawsuit for declaratory, injunctive, and monetary relief against Liberty Mutual. In January, 2003, the court found that Liberty does have a duty to defend the Company based on the counts remaining in the case. Further, in January, 2003, the court granted JPS' summary judgment motion on Sears' breach of contract claim. These orders are not final and may be subject to reconsideration.

**Table of Contents**

or appeal. To the extent these rulings remain in effect, the number of roofs involved in the case will be substantially reduced, and the Company believes that an unfavorable resolution of the remaining actions would not have a material adverse effect on the business, results of operations or financial condition of the Company.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITYHOLDERS.**

No matters were submitted to a vote of securityholders during the fourth quarter of Fiscal 2003.

**PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.**

The common stock of the Company was approved for listing and trading on the NASDAQ National Market System under the stock symbol JPST, effective January 30, 1998. Prior to that time, there was only sporadic trading of the common stock in the over-the-counter market. The following table presents the high and low sales prices for the common stock for each full quarterly period for the past two years.

<u>Fiscal 2002</u>	<u>High</u>	<u>Low</u>
First Quarter	\$ 6.500	\$ 4.280
Second Quarter	5.850	3.750
Third Quarter	4.470	3.650
Fourth Quarter	4.300	3.410
<u>Fiscal 2003</u>	<u>High</u>	<u>Low</u>
First Quarter	\$ 4.080	\$ 2.550
Second Quarter	3.000	0.980
Third Quarter	1.971	1.050
Fourth Quarter	3.010	1.000

As of January 16, 2004, there were approximately 34 holders of record of the Company's common stock.

The Company has never paid a dividend on its common stock. The Company presently intends to retain earnings to fund working capital and for general corporate purposes and, therefore, does not intend to pay cash dividends on shares of the common stock in the foreseeable future. The payment of future cash dividends, if any, would depend on the Company's financial condition, results of operations, current and anticipated capital requirements, restrictions under the existing indebtedness (including, without limitation, indebtedness evidenced by the revolving credit facility and refundings and refinancings thereof) and other factors deemed relevant by JPS's Board of Directors. The Company's subsidiaries that are borrowers under certain credit agreements are restricted from paying cash dividends to JPS with respect to their capital stock unless, among other things, JPS and its subsidiaries satisfy certain specified financial tests.



**Table of Contents**

## EQUITY COMPENSATION PLAN INFORMATION

<b>Plan Category</b>	<b>Number of Securities to be listed upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensations plans (excluding securities reflected in col. (a))</b>
	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>
Equity compensation plans approved by security holders	955,022	\$ 3.495	17,594
Equity compensation plans not approved by security holders	0	0	0
<b>Total</b>	<b>955,022</b>	<b>\$ 3.495</b>	<b>17,594</b>

**ITEM 6. SELECTED FINANCIAL DATA.**

(Dollars in Thousands Except Per Share Data)

The following table presents selected consolidated historical financial data for the Company for the fiscal years indicated. The selected historical financial data for the years ended October 30, 1999, October 28, 2000, October 27, 2001, November 2, 2002 and November 1, 2003 have been derived from the Consolidated Financial Statements of the Company for such periods, which have been audited. The presentation of certain previously reported amounts has been reclassified to conform to the current presentation and to reflect discontinued operations of the yarn sales business (sold on July 23, 1999), the cotton commercial products business (sold on August 27, 1999), and the Apparel Division (sold on November 17, 2000), as discussed in Note 3 to the Consolidated Financial Statements of the Company at Item 8 in this Form 10-K.

**Table of Contents**

	Fiscal Year Ended October 30, 1999 (52 Weeks)	Fiscal Year Ended October 28, 2000 (52 Weeks)	Fiscal Year Ended October 27, 2001 (52 Weeks)	Fiscal Year Ended November 2, 2002 (53 Weeks)	Fiscal Year Ended November 1, 2003 (52 Weeks)
<b>Statement of Operations Data:</b>					
Net sales	\$ 156,867	\$ 167,978	\$ 147,626	\$ 126,363	\$ 128,729
Cost of sales	121,579	126,380	116,888	108,099	110,587
Gross profit	35,288	41,598	30,738	18,264	18,142
Selling, general and administrative expenses	26,978	27,368	21,162	18,018	17,546
Other expense (income), net	1,663	(18)	(1)	(2)	(12)
Operating profit	6,647	14,248	9,577	248	608
Interest expense, net	(3,511)	(3,442)	(2,333)	(735)	(715)
Income (loss) before income taxes and discontinued operations	3,136	10,806	7,244	(487)	(107)
Income taxes (benefit)	1,997	4,517	2,818	(121)	0
Income (loss) from continuing operations	1,139	6,289	4,426	(366)	(107)
Discontinued operations (net of taxes):					
Loss from discontinued operations	(4,485)	(104)			
Loss on disposal of discontinued operations	(18,096)	(47,415)			
Net income (loss)	\$ (21,442)	\$ (41,230)	\$ 4,426	\$ (366)	\$ (107)
Income (loss) applicable to common stock	\$ (21,442)	\$ (41,230)	\$ 4,426	\$ (366)	\$ (107)
Weighted average number of shares outstanding - Basic	10,000,000	9,940,000	9,340,466	9,277,623	9,333,759
Basic earnings (loss) per common share:					
Income (loss) from continuing operations	\$ 0.11	\$ 0.63	\$ 0.47	\$ (0.04)	\$ (0.01)
Discontinued operations (net of taxes):					
Loss from discontinued operations	(0.44)	(0.01)			
Loss on disposal of discontinued operations	(1.81)	(4.77)			
Net income (loss)	\$ (2.14)	\$ (4.15)	\$ 0.47	\$ (0.04)	\$ (0.01)
	<b>October 30, 1999</b>	<b>October 28, 2000</b>	<b>October 27, 2001</b>	<b>November 2, 2002</b>	<b>November 1, 2003</b>
<b>Balance Sheet Data:</b>					
Working capital, excluding net assets held for sale	\$ 29,148	\$ 28,734	\$ 26,801	\$ 23,569	\$ 14,568
Total assets	216,316	148,242	109,905	89,021	83,371
Total long-term debt, less current portion	79,806	51,529	19,287	12,755	14,046
Shareholders' equity	94,653	52,408	55,247	13,977	5,036

**Table of Contents****ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

The following discussion should be read in conjunction with the Consolidated Financial Statements of the Company and the Notes thereto included in Item 8 herein. The presentation of certain previously reported amounts has been reclassified to conform to the current presentation.

	Fiscal Year Ended October 27, 2001	Fiscal Year Ended November 2, 2002	Fiscal Year Ended November 1, 2003
<b>NET SALES</b>			
Elastomerics	\$ 82,409	\$ 75,466	\$ 79,620
Glass	65,217	50,897	49,109
	<u>          </u>	<u>          </u>	<u>          </u>
Net sales	\$ 147,626	\$ 126,363	\$ 128,729
	<u>          </u>	<u>          </u>	<u>          </u>
<b>OPERATING PROFIT <sup>(1)</sup></b>			
Elastomerics	\$ 3,922	\$ (256)	\$ 483
Glass	5,655	504	125
	<u>          </u>	<u>          </u>	<u>          </u>
Operating profit	9,577	248	608
Interest expense, net	(2,333)	(735)	(715)
	<u>          </u>	<u>          </u>	<u>          </u>
Income (loss) before income taxes	\$ 7,244	\$ (487)	\$ (107)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>OTHER DATA</b>			
Cash provided by (used in) operating activities	\$ 11,055	\$ 7,124	\$ (727)
Cash provided by (used in) investing activities	\$ 21,717	\$ (974)	\$ (247)
Cash provided by (used in) financing activities	\$ (34,444)	\$ (6,427)	\$ 1,368

<sup>(1)</sup> 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, employee benefits and professional fees.

**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.

**Fiscal 2003 Compared with Fiscal 2002**

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Consolidated net sales increased \$2.3 million, or 1.8%, from \$126.4 million in Fiscal 2002 to \$128.7 million in Fiscal 2003. Consolidated operating profit increased \$0.3 million from \$0.3 million in Fiscal 2002 to \$0.6 million in Fiscal 2003. Total selling, general and administrative expenses decreased \$0.5 million from Fiscal 2002 to Fiscal 2003 while remaining at 13.6% of sales. The decrease is primarily attributed to lower variable selling costs and cost savings initiatives.

## **Table of Contents**

### *JPS Elastomerics*

Net sales in Fiscal 2003 in the Elastomerics segment, which includes single-ply roofing and extruded urethane products, increased \$4.1 million, or 5.4%, from \$75.5 million in Fiscal 2002 to \$79.6 million in Fiscal 2003. The increase is attributed to a 9.7% increase in roofing and geomembrane products, partially offset by a 1.5% decrease in extruded urethane product sales. While commercial construction continued to slow in Fiscal 2003, market growth in TPO membranes and the introduction of PVC membranes manufactured by the Company allowed us to increase roofing product sales. Urethane product sales were generally stable, with revenue decreases driven by sales mix and pricing competition.

Operating profit in Fiscal 2003 for the Elastomerics segment increased \$0.8 million from a loss of \$0.3 million in Fiscal 2002 to operating profit of \$0.5 million in Fiscal 2003. The increase resulted principally from higher volumes and improved manufacturing efficiencies for roofing products, partially offset by lower prices and a less favorable mix for urethane products. Further, increases in insurance and energy costs, combined with lower allocated pension income, were offset by lower selling, general, administrative and warranty costs.

### *JPS Glass*

Net sales in the Glass segment, which includes substrates constructed of synthetics and fiberglass for lamination, insulation and filtration applications, decreased \$1.8 million, or 3.5%, from \$50.9 million in Fiscal 2002 to \$49.1 million in Fiscal 2003 primarily as a result of the significant decline in demand for electronics-related substrates. The electronics industry represents the largest customer base for the Company's fiberglass products and continued demand decreases and pricing pressures were only partly offset by higher sales of filtration, Quartz and other industrial substrates.

Operating profit in Fiscal 2003 for the Glass segment decreased \$0.4 million from \$0.5 million in Fiscal 2002 to \$0.1 million in Fiscal 2003. Lower unit sales and prices of electronic substrates combined with higher insurance and manufacturing costs to account for the majority of the operation profit reduction, more than offsetting the contribution from higher sales of filtration, Quartz and industrial substrates. Lower selling general and administrative costs, attributed to cost savings initiatives, partially offset lower allocated pension income.

### *Other*

Interest expense decreased \$20,000 to \$715,000 in Fiscal 2003 from \$735,000 in Fiscal 2002. Debt net of cash on hand increased by approximately \$950,000 in Fiscal 2003 primarily as a result of funding \$6.9 million of pension contributions from cash flow from operations.

## **Fiscal 2002 Compared With Fiscal 2001**

Consolidated net sales decreased \$21.3 million, or 14.0%, from \$147.6 million in Fiscal 2001 to \$126.4 million in Fiscal 2002. Consolidated operating profit decreased \$9.3 million from \$9.6 million in Fiscal 2001 to \$0.3 million in Fiscal 2002. Total selling, general and administrative expenses decreased \$3.1 million from Fiscal 2001 to Fiscal 2002 while remaining at 14.3% of sales. The decrease is primarily attributed to lower

variable selling costs, higher pension income and cost savings initiatives.

*JPS Elastomerics*

Net sales in Fiscal 2002 in the Elastomerics segment, which includes single-ply roofing and extruded urethane products, decreased \$6.9 million, or 8.4%, from \$82.4 million in Fiscal 2001 to \$75.5 million in Fiscal 2002. Sales of the Company's roofing products were adversely affected by the dramatic decrease in domestic commercial construction. In addition, the domestic roofing market continues to be characterized by intense competition driven by aggressive entrants into this segment of the market. The Company has addressed this challenge by instituting aggressive pricing strategies, developing new products including the introduction of PVC and 80 mil TPO single-ply membranes, strengthening sales management in key territories, and taking actions to reduce operating costs. Sales of urethane products were up slightly year over year.

## **Table of Contents**

Operating profit in Fiscal 2002 for the Elastomerics segment decreased \$4.2 million from \$3.9 million in Fiscal 2001 to a loss of \$0.3 million in Fiscal 2002. The decrease resulted principally from lower sales volumes, prices and margins on roofing products. Cost of goods sold increased as a result of higher insurance, energy, claims, and efficiency losses which were partially offset with cost reduction measures and improved inventory management. Selling, general and administrative costs decreased as a result of cost savings initiatives and higher allocated pension income.

### *JPS Glass*

Net sales in the Glass segment, which includes substrates constructed of synthetics and fiberglass for lamination, insulation and filtration applications, decreased \$14.3 million, or 21.9%, from \$65.2 million in Fiscal 2001 to \$50.9 million in Fiscal 2002 primarily as a result of the significant decline in demand for electronics-related substrates. The electronics industry represents the largest customer base for the Company's fiberglass products and dramatic demand decreases were only partly offset by higher sales of filtration, Quartz and other industrial substrates.

Operating profit in Fiscal 2002 for the Glass segment decreased \$5.2 million from \$5.7 million in Fiscal 2001 to \$0.5 million in Fiscal 2002. Lower unit sales and prices of electronic substrates combined with higher insurance and manufacturing costs to account for the majority of the operation profit reduction, more than offsetting the contribution from higher sales of filtration, Quartz and industrial substrates. Selling general and administrative costs decreased as a result of cost savings initiatives and higher allocated pension income.

### *Other*

Interest expense decreased \$1.6 million to \$0.7 million in Fiscal 2002 from \$2.3 million in Fiscal 2001. Total long-term debt was reduced by approximately \$6.5 million in Fiscal 2002 as a result of cash flow from operations.

## **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. The facility, as amended, provides for a revolving credit loan facility and letters of credit in a maximum amount equal to the lesser of (a) \$25 million or (b) a specified borrowing base, which is based upon eligible receivables, eligible inventory, and a specified dollar amount (currently \$6.9 million subject to amortization). See Note 5 to the Consolidated Financial Statements for additional discussion of the revolving credit facility.

In conjunction with the recognition of additional pension liability and the resulting reduction to tangible net worth (as defined in our credit agreement), the Company violated the minimum net worth covenant in the credit agreement as of November 2, 2002. This covenant has been waived through November 1, 2004. As of November 1, 2003, the Company was also out of compliance with the total debt to EBITDA covenant in the credit agreement. This covenant has been waived through January 31, 2004. Management believes the Company will meet this covenant in the future, but there can be no assurance that we will be in compliance. Failure to obtain a waiver for any future violation of this covenant could result in acceleration of amounts due under the revolving credit facility.

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As extended, the credit agreement expires on November 1, 2004. The ability of the Company to continue to meet its obligations and implement its business plan is contingent on obtaining refinancing when borrowings under its current revolving credit facility are due. There can be no assurance that we will be able to obtain such refinancing.

Year to date for 2003, cash used in operating activities was \$0.7 million. Working capital at November 2, 2002 was \$23.6 million compared with \$14.6 million at November 1, 2003. From November 2, 2002 to November 1, 2003,

## **Table of Contents**

accounts receivable decreased by \$0.1 million due to timing and sales levels, inventories decreased \$1.4 million due to higher sales volumes and management emphasis, and accounts payable and accrued expenses increased by \$1.1 million as a result of volumes and timing.

The principal uses of cash in 2003 were for capital expenditures of \$246,775 to upgrade the Company's manufacturing operations and funding of \$6.9 million of pension contributions and we expect contributions of \$7.4 million in 2004 absent legislative changes to funding rules. In 2001, the Company received approximately \$27.5 million in proceeds from the sale of its Apparel division. Such funds were used to reduce the Company's outstanding indebtedness under its revolving credit facility and certain equipment loans.

At January 27, 2004, the Company had approximately \$11.1 million of additional availability for borrowing under the revolving credit facility.

Based upon the ability to generate working capital through its operations, its current credit agreement and, assuming the Company is successful in securing refinancing on the terms and timetable currently contemplated, the Company believes that it will have the financial resources necessary to pay its capital obligations and implement its business plan.

## **INFLATION AND TAX MATTERS**

The Company is subject to the effects of changing prices. It has historically been able to pass along inflationary increases in its costs by increasing the prices for its products or by increasing manufacturing efficiencies; however, market conditions have precluded raising prices in 2002 and 2003 and, in some cases, the Company experienced selling price decreases for its products.

For Fiscal 2003, the Company recorded no tax expense or benefit from continuing operations. A decrease in the valuation allowance offset the small tax that would have otherwise been accrued. The Company had net operating loss carryforwards of approximately \$100.0 million as of November 1, 2003. A portion of these losses are subject to annual limitations on usage as a result of the ownership change that occurred as determined under the Internal Revenue Code of 1986. See Note 7 to the Consolidated Financial Statements for additional information. The effective tax rates for Fiscal 2002 and 2001 were 25% (benefit) and 39%, respectively. The effective rates for all years are higher or the benefit is lower than the combined Federal and state statutory rate due to the impact of nondeductible costs. For Fiscal 2003 and 2002, these costs are primarily travel costs, for Fiscal 2001, the nondeductible costs were primarily excess reorganization costs.

The ultimate realization of the Company's deferred tax asset is dependent upon the generation of sufficient amounts of future taxable income during the years in which the related net operating loss carryforwards may be utilized prior to their expiration. Such realization would require that the Company generate on average approximately \$1.0 million of taxable income increasing at approximately 5% per year. The Company's ability to generate sufficient taxable income in future periods is contingent upon a number of factors, including, without limitation, the general economic and business conditions affecting the Company's industries, actions of competitors, changes in demand in certain markets, the Company's ability to meet its debt service and pension plan obligations (including its ability to meet its financial covenant obligations and negotiate replacement credit facilities on maturity), the seasonality of the Company's sales, the volatility of the Company's raw material, claims and energy costs, and the Company's dependence on key personnel and certain large customers. Although the Company did not generate taxable income during Fiscal 2003 at a level necessary to utilize the deferred tax asset, the Company believes that, given the long-term nature of its net operating loss carryforwards and after considering the aforementioned factors, certain cost reductions as well as improvements in profitability resulting from increased sales will result in taxable income from future operations that will more likely than not be sufficient to utilize the deferred tax asset, net of any valuation allowance. Further, the Company has developed certain tax planning strategies, including the possibility of the sale of assets that could be employed, if necessary, to generate taxable income. Although the Company has developed plans and strategies that



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**Table of Contents**

would enable the Company to achieve sufficient income levels in the future, there can be no assurance that these plans will be successful in enabling the Company to generate sufficient taxable income from operations prior to the expiration of the net operating loss carryforwards. The Company will continue to review the recoverability of its deferred tax assets, and based on such periodic reviews, the Company could record a tax charge to record a deferred tax valuation allowance in the future. The establishment of an additional valuation allowance could have a material effect on our future results of operations and financial position. See Note 7 to the Consolidated Financial Statements for additional discussion.

**CRITICAL ACCOUNTING POLICIES AND OTHER MATTERS**

The Company's analysis and discussion of its financial condition and results of operations are based upon its consolidated financial statements that have been prepared in accordance with generally accepted accounting principles in the United States ( U.S. GAAP ). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. The Company evaluates these estimates and assumptions on an ongoing basis, including but not limited to those related to inventories, the allowance for doubtful accounts, reserve for self-insurance liabilities, the reserve for roofing products sold under warranties, income taxes, pension and other post retirement benefits and contingencies. Estimates and assumptions are based on historical and other factors believed to be reasonable under the circumstances. The results of these estimates may form the basis of the carrying value of certain assets and liabilities. Actual results, under conditions and circumstances different from those assumed, may differ from estimates. The impact and any associated risks related to estimates, assumptions, and accounting policies are discussed within Management's Discussion and Analysis of Operations and Financial Condition, as well as in the Notes to the Financial Statements, if applicable, where such estimates, assumptions, and accounting policies affect the Company's reported and expected results.

The Company believes the following accounting policies are critical to its business operations and the understanding of results of operations and affect the more significant judgments and estimates used in the preparation of its consolidated financial statements:

*Revenue Recognition:* Revenue from product sales is recognized at the time ownership of goods transfers to the customer and the earnings process is complete in accordance with Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements ( SAB 101 ). SAB 101 specifies how existing rules should be applied to transactions in the absence of authoritative literature. Based on the guidelines of current accounting rules and SAB 101, revenue should not be recognized until it is realized or realizable and earned.

*Impairment of Long-Lived Assets:* For all periods through November 2, 2002, the Company reviewed the recoverability of the carrying value of long-lived assets in accordance with Statement of Financial Standard No. 121, Accounting for the Impairment of Long-Lived Assets and for Assets to be Disposed Of ( FAS 121 ). The Company also reviewed long-lived assets for impairment whenever events or changes in circumstances indicated that the carrying amount of such assets might not be recoverable. When the future undiscounted cash flows of the operations to which the assets relate did not exceed the carrying value of the asset, the intangible assets were written down, followed by the other long-lived assets, to fair value. In October 2001, the Financial Accounting Standards Board issued Statement No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets ( FAS 144 ). FAS 144 provides accounting guidance for financial accounting and reporting for the impairment or disposal of long-lived assets. The statement supersedes Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of ( FAS 121 ). It also supersedes the accounting and reporting provisions of APB Opinion No. 30 Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions related to the disposal of a segment of a business.

## **Table of Contents**

*Accounts Receivable and Concentration of Credit Risks:* Accounts receivable potentially expose the Company to concentration of credit risk, as defined by Statement of Financial Accounting Standards No. 105, Disclosure of Information about Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentration of Credit Risk. The Company provides credit in the normal course of business and performs ongoing credit evaluations on certain of its customers' financial condition, but generally does not require collateral to support such receivables. The Company also establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information.

*Income Taxes:* The Company records an income tax valuation allowance when the realization of certain deferred tax assets and net operating losses is not likely. These deferred tax items represent expenses recognized for financial reporting purposes, which will result in tax deductions over varying future periods. Certain judgments, assumptions and estimates may affect the carrying value of the valuation allowance and deferred income tax expense in the Company's consolidated financial statements.

*Off Balance Sheet Arrangements:* The Company does not have transactions, arrangements or relationships with special purpose entities, and the Company does not have any off balance sheet debt.

*Product Warranties:* On certain of its products, the Company provides a warranty against defects in materials and workmanship under separately priced extended warranty contracts generally for a period of 10 years. Revenue from such extended warranty contracts is deferred and recognized as income on a straight-line basis over the contract period. The cost of servicing such product warranties is charged to expense when claims become estimable.

*Pension Plan Obligations:* The Company sponsors a defined benefit pension plan that covers substantially all of its employees. The accounting for pensions is determined by standardized accounting and actuarial methods that include critical assumptions, including, without limitation, discount rates, expected return on plan assets, and future compensation increases. The Company considers these assumptions to be critical as they can impact periodic pension expense as well as the minimum pension liability. As of November 1, 2003, the Company's accrued pension cost totaled \$29.1 million.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

In December 2002, the FASB issued FAS 148 Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FAS 123. Accounting for Stock-Based Compensation was issued to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The amendments to Statement 123 in paragraphs 2(a)-2(e) of this Statement shall be effective for financial statements for fiscal years ending after December 15, 2002.

In January 2003, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation ( FIN ) No. 46, Consolidation of Variable Interest Entities an interpretation of ARB No. 51. FIN No. 46 provides criteria for determining whether the financial statement issuer must consolidate other entities in its financial statements. FIN No. 46 expands the guidance on consolidation in ARB No. 51, which was based on controlling financial interest, to include other factors. The provisions of FIN No. 46 are effective for entities created before February 1, 2003 and for the Company's interim financial statements for the quarter ended January 31, 2004. For entities created after February 1, 2003, the provisions of FIN No. 46 will be effective as of the date they first become involved with the certain entity. The Company does not expect a material impact on its financial position, results of operations, or cash flows upon the adoption of FIN No. 46.



**Table of Contents**

**ITEM 7A. 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 that ultimately utilize components manufactured by the Company, and general consumer demand. Adverse economic developments could affect the financial performance of the Company, and these factors include, but are not limited to, the general economic and business conditions affecting the Company's industries, actions of competitors, changes in demand in certain markets, the Company's ability to meet its debt service and pension plan obligations (including its ability to meet the financial covenant obligations in the credit agreement and negotiate a new credit facility upon maturity of its existing credit facility), the Company's ability to realize its deferred tax asset, the seasonality of the Company's sales, the volatility of the Company's raw material costs, claims and energy, and the Company's dependence on key personnel and certain large customers.

**Table of Contents**

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

*Report of Independent Auditors*

To the Board of Directors and Shareholders

of JPS Industries, Inc.:

In our opinion, the consolidated financial statements as of and for the years ended November 1, 2003 and November 2, 2002 listed in the index appearing under Item 15(a)(1) on page 43, present fairly, in all material respects, the financial position of JPS Industries, Inc. and its subsidiaries (the Company) at November 1, 2003 and November 2, 2002 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule as of and for the year ended November 1, 2003 listed in the index appearing under Item 15(a)(2) on page 44, presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully discussed in Note 5 to the consolidated financial statements, the Company's revolving credit facility expires on November 1, 2004.

*PricewaterhouseCoopers LLP*

Spartanburg, SC

January 27, 2004

**Table of Contents**

INDEPENDENT AUDITORS' REPORT

JPS Industries, Inc.

We have audited the accompanying consolidated balance sheet of JPS Industries, Inc. (a Delaware Corporation) and subsidiaries as of October 27, 2001, and the related statements of operations, shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of JPS Industries, Inc. and subsidiaries as of October 27, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index of financial statements is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Charlotte, North Carolina

December 6, 2001

**The report is a copy of the previously issued report. Arthur Andersen LLP has not reissued the report.**

**Table of Contents**

JPS INDUSTRIES, INC.

## CONSOLIDATED BALANCE SHEETS

(Dollars In Thousands)

	November 2,	November 1,
	<u>2002</u>	<u>2003</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 267	\$ 661
Accounts receivable, less allowance of \$434 in 2003 and \$554 in 2002	20,160	20,070
Inventories	15,025	13,613
Prepaid expenses and other	2,473	3,164
Deferred income taxes	304	304
	<u>38,229</u>	<u>37,812</u>
Total current assets	38,229	37,812
PROPERTY, PLANT AND EQUIPMENT, net	38,971	33,788
DEFERRED INCOME TAXES	11,727	11,727
OTHER ASSETS	94	44
	<u>89,021</u>	<u>83,371</u>
Total assets	\$ 89,021	\$ 83,371

See notes to consolidated financial statements.

**Table of Contents**

	November 2,	November 1,
	2002	2003
	<u>          </u>	<u>          </u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 7,628	\$ 10,062
Accrued interest	44	54
Accrued salaries, benefits and withholdings	1,010	1,017
Accrued pension costs	0	7,446
Other accrued expenses	5,309	3,943
Current portion of long-term debt	669	722
	<u>          </u>	<u>          </u>
Total current liabilities	14,660	23,244
LONG-TERM DEBT	12,755	14,046
OTHER LONG-TERM LIABILITIES	47,629	41,045
	<u>          </u>	<u>          </u>
Total liabilities	75,044	78,335
	<u>          </u>	<u>          </u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Common stock, \$.01 par value; authorized 22,000,000 shares; issued 10,000,000 shares; outstanding 9,494,259 shares in 2003 and 9,291,759 shares in 2002	100	100
Additional paid-in capital	124,150	123,332
Treasury stock (at cost) 505,741 shares in 2003 and 708,241 shares in 2002	(2,738)	(1,895)
Additional minimum pension liability	(40,976)	(49,835)
Accumulated deficit	(66,559)	(66,666)
	<u>          </u>	<u>          </u>
Total shareholders' equity	13,977	5,036
	<u>          </u>	<u>          </u>
Total liabilities and shareholders' equity	\$ 89,021	\$ 83,371
	<u>          </u>	<u>          </u>

See notes to consolidated financial statements.

**Table of Contents**

JPS INDUSTRIES, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in Thousands Except Share and Per Share Data)

	Fiscal Year Ended October 27, 2001	Fiscal Year Ended November 2, 2002	Fiscal Year Ended November 1, 2003
Net sales	\$ 147,626	\$ 126,363	\$ 128,729
Cost of sales	116,888	108,099	110,587
Gross profit	30,738	18,264	18,142
Selling, general and administrative expenses	21,162	18,018	17,546
Other income, net	(1)	(2)	(12)
Operating profit	9,577	248	608
Interest expense, net	(2,333)	(735)	(715)
Income (loss) before income taxes	7,244	(487)	(107)
Income taxes (benefit)	2,818	(121)	0
Net income (loss)	\$ 4,426	\$ (366)	\$ (107)
Weighted average number of common shares outstanding:			
Basic	9,340,466	9,277,623	9,333,759
Diluted	9,610,263	9,277,623	9,333,759
Basic earnings (loss) per common share	\$ 0.47	\$ (0.04)	\$ (0.01)
Diluted earnings (loss) per common share	\$ 0.46	\$ (0.04)	\$ (0.01)

See notes to consolidated financial statements.

**Table of Contents**

JPS INDUSTRIES, INC.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars In Thousands)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Accumulated Deficit
Balance October 28, 2000	\$ 100	\$ 124,190	\$ (1,263)	\$	\$ (70,619)
Stock compensation expense		102			
Shares reacquired and held in treasury			(2,309)		
Exercise of stock options		(117)	737		
Net income					4,426
Balance October 27, 2001	100	124,175	(2,835)		(66,193)
Additional minimum pension liability adjustment				(40,976)	
Stock compensation expense		15			
Exercise of stock options		(40)	97		
Net loss					(366)
Balance November 2, 2002	100	124,150	(2,738)	(40,976)	(66,559)
Additional minimum pension liability adjustment				(8,859)	
Exercise of stock options		(5)	12		
Restricted stock grant		(813)	831		
Net income					(107)
Balance November 1, 2003	\$ 100	\$ 123,332	\$ (1,895)	\$ (49,835)	\$ (66,666)

See notes to consolidated financial statements.

**Table of Contents**

JPS INDUSTRIES, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars In Thousands)

	Fiscal Year Ended October 27, 2001	Fiscal Year Ended November 2, 2002	Fiscal Year Ended November 1, 2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income (loss)	\$ 4,426	\$ (366)	\$ (107)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	5,797	5,724	5,425
Amortization of deferred financing costs	320	46	46
Deferred income tax provision (benefit)	2,715	(227)	0
Pension plan contributions	0	0	(6,912)
Other, net	420	(262)	(1,081)
Changes in assets and liabilities:			
Accounts receivable	5,984	1,496	90
Inventories	144	3,414	1,413
Prepaid expenses and other assets	502	(182)	(692)
Accounts payable	(2,797)	(2,879)	2,435
Accrued expenses and other liabilities	(6,456)	360	(1,344)
Total adjustments	6,629	7,490	(620)
Net cash provided by (used in) operating activities	11,055	7,124	(727)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Property and equipment additions	(5,822)	(974)	(247)
Proceeds from assets held for sale	27,539	0	0
Net cash provided by (used in) investing activities	21,717	(974)	(247)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Financing costs incurred	(197)	(1)	(1)
Purchase of treasury stock	(2,309)	0	0
Net proceeds from exercise of stock options	620	57	24
Revolving credit facility borrowings (repayments), net	(31,248)	(5,863)	2,014
Repayment of other long-term debt	(1,310)	(620)	(669)
Net cash provided by (used in) financing activities	(34,444)	(6,427)	1,368

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NET INCREASE (DECREASE) IN CASH	(1,672)	(277)	394
CASH AT BEGINNING OF YEAR	2,216	544	267
CASH AT END OF YEAR	\$ 544	\$ 267	\$ 661
SUPPLEMENTAL INFORMATION ON CASH FLOWS:			
Interest paid	\$ 2,715	\$ 702	\$ 659
Income taxes paid, net	448	106	24

See notes to consolidated financial statements.

**Table of Contents**

JPS INDUSTRIES, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. DESCRIPTION OF THE COMPANY

JPS Industries, Inc. is a major U.S. manufacturer of extruded urethanes, polypropylenes, and mechanically formed glass substrates for specialty industrial applications. JPS specialty industrial products are used in a wide range of applications, including: printed electronic circuit boards; advanced composite materials; aerospace components; filtration and insulation products; surf board; construction substrates; high performance glass laminates for security and transportation applications; plasma display screens; athletic shoes; commercial and institutional roofing; reservoir covers; and medical, automotive and industrial components. Headquartered in Greenville, South Carolina, the Company operates manufacturing locations in Slater, South Carolina; Westfield, North Carolina; and Easthampton, Massachusetts.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include JPS Industries, Inc. and its direct subsidiaries, all of which are wholly owned. Significant intercompany transactions and accounts have been eliminated. Unless the context otherwise requires, the terms "JPS" and the "Company" as used in these Consolidated Financial Statements mean JPS Industries, Inc. and JPS Industries, Inc. together with its 100% owned subsidiaries, JPS Elastomerics Corp. and JPS Converter and Industrial Corp.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's most significant financial statement estimates include the estimate of the allowance for doubtful accounts, reserve for self-insurance liabilities, assumptions for pension and other post-retirement obligations, contingencies and the reserve for roofing products sold under warranties. Management determines its estimate of the allowance for doubtful accounts considering a number of factors, including historical experience, aging of the accounts and the current creditworthiness of its customers. Management determines its estimate of the reserve for self-insurance considering a number of factors, including historical experience, third party claims administrator and actuarial assessments and insurance coverages. Management determines its estimate of the reserve for roofing products sold under warranties by reviewing factors such as expected future claims and roofing compound applied; and the expected costs to repair and replace such roofing products. Management believes that its estimates provided in the financial statements are reasonable and adequate. However, actual results could differ from those estimates.

Inventories - Inventories are stated at the lower of cost or market. Cost, which includes labor, material and factory overhead, is determined on the first-in, first-out basis.

Property, Plant and Equipment - Property, plant and equipment is recorded at cost and depreciation is recorded using the straight-line method for financial reporting purposes. The estimated useful lives used in the computation of depreciation are as follows:

Land improvements	10 to 45 years
Buildings and improvements	25 to 45 years

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Machinery and equipment	3 to 15 years
Furniture, fixtures and other	5 to 10 years

The Company assesses its long-lived assets for impairment whenever facts and circumstances indicate that the carrying amount may not be fully recoverable. If required, an impairment loss is measured based upon

## Table of Contents

the difference between the carrying amount and the fair value of the assets. Assets under capital leases are amortized in accordance with the Company's normal depreciation policy and the charge to earnings is included in depreciation expense in the accompanying consolidated financial statements. Depreciation expense totaled \$5.5 million for Fiscal 2001, \$5.7 million for Fiscal 2002, and \$5.4 for Fiscal 2003.

Reorganization Value in Excess of Amounts Allocable to Identifiable Assets Reorganization value in excess of amounts allocable to identifiable assets ( Reorganization Value ) resulted from the application of fresh start reporting in 1997 and was being amortized over a 20-year period. In Fiscal 2000, the Reorganization Value was decreased by approximately \$15.0 million in relation to the plant sales discussed in Note 3. As discussed in Note 7, the remaining amount was retired in connection with the year-end adjustment of the Company's deferred tax asset valuation allowance in Fiscal 2001 and \$0 remained at October 27, 2001.

Distribution Costs A portion of the Company's distribution and shipping and handling costs are included in cost of sales and selling, general and administrative costs. The portion of these costs, which were included in selling, general and administrative costs, totaled \$2.0 million in Fiscal 2001, \$1.7 million in Fiscal 2002 and \$1.8 million in Fiscal 2003.

Debt Issuance Costs - Costs incurred in securing and issuing long-term debt are deferred and amortized over the terms of the related debt in amounts which approximate the interest method of amortization.

Product Warranties - On certain of its products, the Company provides a warranty against defects in materials and workmanship under separately priced extended warranty contracts generally for a period of 10 years. Revenue from such extended warranty contracts is deferred and recognized as income on a straight-line basis over the contract period. The cost of servicing such product warranties is charged to expense when claims become estimable.

Fair Value of Financial Instruments - The carrying amounts of all financial instruments approximate their estimated fair values in the accompanying Balance Sheets. The carrying amounts of cash, accounts receivable, accounts payable, and accrued expenses approximate fair value because of the short maturity of these items. The carrying value of financial instruments such as debt and notes receivable approximates fair value because interest rates on these instruments change with market rates.

Revenue Recognition Revenue from product sales is recognized at the time ownership of goods transfers to the customer and the earnings process is complete in accordance with Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements ( SAB 101 ). Warranty revenue is recognized as discussed above. SAB 101 specifies how existing rules should be applied to transactions in the absence of authoritative literature. Based on the guidelines of current accounting rules and SAB 101, revenue should not be recognized until it is realized or realizable and earned.

Advertising Costs - The Company defers advertising related costs until the advertising is first run in magazines or other publications or in the case of brochures, until the brochures are printed and available for distribution. Advertising costs expensed were approximately \$1.3 million in Fiscal 2001, \$0.7 million in Fiscal 2002 and \$0.6 million in Fiscal 2003.

Income Taxes - Deferred tax assets and liabilities are determined based on the difference between the financial statement bases and tax bases of assets and liabilities using enacted tax rates. A valuation allowance is recorded to reduce a deferred tax asset to that portion that is expected to more likely than not be realized.

Earnings Per Share - Potentially dilutive common shares consist primarily of stock options. For the year ended November 1, 2003, the inclusion of additional shares assuming the exercise of stock options and warrants are antidilutive. Therefore, basic and diluted earnings per share are the same for that period.

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**Table of Contents**

**Fiscal Year** - The Company's operations are based on a 52 or 53-week fiscal year ending on the Saturday closest to October 31. Fiscal years 2001 and 2003 had 52 weeks and Fiscal year 2002 had 53 weeks.

**Effects of Recent Accounting Pronouncements** - On October 29, 2000, the Company adopted Statement Financial Accounting Standards ( SFAS ) No. 133, Accounting for Derivative Instruments and Hedging Activities. This statement requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. As of October 27, 2001, November 2, 2002, and November 1, 2003, the Company did not have any derivatives which were required to be recorded on the balance sheet.

In October 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 replaces SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and requires that long-lived assets which are held for disposal be measured at the lower of carrying amount or fair value less the cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The adoption of this statement has not had any effect on our financial statements.

In December 2002, the FASB issued FAS 148 Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FAS 123. Accounting for Stock-Based Compensation was issued to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The amendments to Statement 123 in paragraphs 2(a)-2(e) of this Statement are effective for the Company's financial statements for fiscal year 2003.

In November 2002, the FASB issued Interpretation No. 45 Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others which elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This Interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. This Interpretation also incorporates, without change, the guidance in FASB Interpretation No. 34, Disclosure of Indirect Guarantees of Indebtedness of Others, which is being superseded. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002 and the disclosure requirements in this Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002.

In January 2003, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation ( FIN ) No. 46, Consolidation of Variable Interest Entities an interpretation of ARB No. 51. FIN No. 46 provides criteria for determining whether the financial statement issuer must consolidate other entities in its financial statements. FIN No. 46 expands the guidance on consolidation in ARB No. 51, which was based on controlling financial interest, to include other factors. The provisions of FIN No. 46 are effective for entities created before February 1, 2003 and for the Company's interim financial statements for the quarter ended January 31, 2004. For entities created after February 1, 2003, the provisions of FIN No. 46 will be effective as of the date they first become involved with the certain entity. The Company does not expect a material impact on its financial position, results of operations, or cash flows upon the adoption of FIN No. 46.

**Table of Contents**

## 3. SALE OF DISCONTINUED OPERATIONS

On November 17, 2000 the Company sold the assets of its greige apparel fabric business which included three manufacturing facilities in South Boston, Virginia; Greenville, South Carolina; and Laurens, South Carolina; and administrative offices in Greenville, South Carolina, New York and Los Angeles, thereby exiting its apparel business. The business accounted for sales of \$125.4 million in Fiscal 2000. The consideration for the sale consisted of approximately \$27.1 million in cash and future consideration in the form of an earn-out based on earnings before interest, depreciation and amortization, as defined, for the 24-month period following the transaction plus certain assumed liabilities. The Company has accounted for the results of the Apparel Fabric Business as a discontinued operation and a charge for loss on disposal of discontinued operations of \$47.4 million was recorded in Fiscal 2000 related primarily to the writedown of disposed plant assets and related Reorganization Value to realizable value and other exit costs. The net proceeds from the sale of \$26.2 million were used to reduce the Company's outstanding indebtedness on its revolving credit facility which was amended in connection with the transaction to reflect the Company's lower borrowing requirements.

## 4. BALANCE SHEET COMPONENTS

The components of certain balance sheet accounts are (in thousands):

	November 2, 2002	November 1, 2003
	<u>          </u>	<u>          </u>
Inventories:		
Raw materials and supplies	\$ 2,466	\$ 2,351
Work-in-process	3,087	2,851
Finished goods	9,472	8,411
	<u>          </u>	<u>          </u>
	\$ 15,025	\$ 13,613
	<u>          </u>	<u>          </u>
Prepaid expenses and other:		
Prepaid insurance	\$ 483	\$ 509
Other	1,990	2,655
	<u>          </u>	<u>          </u>
	\$ 2,473	\$ 3,164
	<u>          </u>	<u>          </u>
Property, plant and equipment, net:		
Land and improvements	\$ 972	\$ 972
Buildings and improvements	5,517	5,534
Machinery and equipment	55,920	56,151
Furniture, fixtures and other	921	921
	<u>          </u>	<u>          </u>
	63,330	63,578
Less accumulated depreciation	(24,424)	(29,848)
	<u>          </u>	<u>          </u>
	38,906	33,730
Construction in progress	65	58
	<u>          </u>	<u>          </u>
	\$ 38,971	\$ 33,788
	<u>          </u>	<u>          </u>

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Other noncurrent assets:		
Deferred financing fees	\$ 69	\$ 23
Other	25	21
	<u>94</u>	<u>44</u>
Other accrued expenses:		
Roofing warranty costs	\$ 3,522	\$ 1,585
Taxes payable other than income taxes	429	422
Other	1,358	1,936
	<u>5,309</u>	<u>3,943</u>

(Table continued on next page)

**Table of Contents***(Table continued from previous page)*

	November 2, 2002	November 1, 2003
	<u>          </u>	<u>          </u>
Other long-term liabilities:		
Roofing and deferred warranty income	\$ 15,752	\$ 15,522
Accrued pension costs	28,114	21,619
Accrued postretirement and postemployment benefit plan liability	3,763	3,904
	<u>          </u>	<u>          </u>
	<u>\$ 47,629</u>	<u>\$ 41,045</u>

**5. LONG-TERM DEBT**

Long-term debt consists of (in thousands):

	November 2, 2002	November 1, 2003
	<u>          </u>	<u>          </u>
Revolving credit facility	\$ 10,889	\$ 12,902
Capital lease obligation	2,535	1,866
	<u>          </u>	<u>          </u>
Total	13,424	14,768
Less current portion	(669)	(722)
	<u>          </u>	<u>          </u>
Long-term portion	<u>\$ 12,755</u>	<u>\$ 14,046</u>

**Revolving Credit Facility** - The Company's Revolving Credit and Security Agreement (the revolving credit facility) is with Wachovia Bank, and all borrowings under the revolving credit facility mature on November 1, 2004, as extended. 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) \$25 million or (b) a specified borrowing base, which is based upon eligible receivables and inventory (as defined), and a specified dollar amount (currently \$6.9 million subject to amortization).

As of November 1, 2003, unused and outstanding letters of credit totaled \$0.3 million. The outstanding letters of credit reduce the funds available under the revolving credit facility. At November 1, 2003, the Company had approximately \$11.8 million of additional availability for borrowing under the revolving credit facility.

The revolving credit facility restricts investments, acquisitions, and dividends. The revolving credit facility contains financial covenants relating to minimum levels of net worth, as defined, and a minimum debt to EBITDA ratio, as defined. All loans outstanding under the revolving credit facility bear interest at the 30-day LIBOR rate plus an applicable margin based upon the Company's debt to EBITDA ratio. As of November 1,

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2003, the Company's interest rate under the revolving credit facility was 3.8%.

In conjunction with the recognition of the additional minimum pension liability and resulting reduction to tangible net worth as defined in the revolving credit facility, the Company violated the minimum net worth covenant as of November 1, 2003. This covenant has been waived through November 1, 2004. As of November 1, 2003, the Company was not in compliance with the total debt to EBITDA covenant. This covenant has been waived through the first quarter of Fiscal 2004. Management believes it will be in compliance with this covenant in the future; however, a violation of this covenant and failure to obtain appropriate waivers could result in the acceleration of amounts due under the revolving credit facility. In such an event, the Company could be forced to seek alternative financing and there can be no assurance that alternative financing could be attained.

Capital Lease Obligation - In Fiscal 1998, the Company entered into a seven-year lease agreement (classified as a capital lease) for certain machinery and equipment. The total costs of assets under lease at November 2, 2002 and November 1, 2003 was approximately \$4.8 million. The lease provides for an early buyout option at the end of six years and includes purchase and renewal options at the end of the lease term. The lease has an implied interest rate of approximately 7.4%. See Note 8 for obligations under capital leases.

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## Table of Contents

Other - The loans and extensions of credit to the Company under the Revolving Credit Facility are guaranteed by JPS Elastomerics Corp. and JPS Converter and Industrial Corp. Substantially all of the Company's assets, excluding real property, are pledged as collateral for the revolving credit facility or the capital lease obligation.

Interest expense includes \$320,000 in Fiscal 2001, \$46,000 in Fiscal 2002 and \$46,000 in Fiscal 2003 representing amortization of debt issuance expenses.

## 6. EQUITY SECURITIES

The Company has one class of stock issued and outstanding.

### Share Repurchase Program

In 2000, the Board of Directors authorized the expenditure of up to \$8 million for the repurchase of the Company's common stock. In November, 2000, this authorization was increased to \$10 million. As of November 2, 2002, the Company had repurchased 886,005 shares at a cost of \$3.6 million. This includes Fiscal 2000 repurchases of 267,500 shares at an aggregate cost of \$1.3 million and Fiscal 2001 repurchases of 618,505 shares at a cost of \$2.3 million. Management intends to make purchases of its common stock from time to time in the open market or in negotiated transactions, but there is no assurance that future repurchases will be made and the repurchase program may be discontinued at any time. There is no time limit on stock repurchases. The Company may use the stock to meet its obligations under its employee stock option program. The Company reissued 158,166 shares in 2001; 20,003 shares in 2002 and 2,500 shares in 2003 in connection with exercises of stock options previously granted under its stock option program.

### 1997 Incentive and Capital Accumulation Plan

The 1997 Incentive and Capital Accumulation Plan (the Incentive Plan) provides certain key employees and non-employee directors of the Company the right to acquire shares of common stock or monetary payments based on the value of such shares. Pursuant to the Incentive Plan, approximately 1,353,485 shares of common stock are reserved for issuance to the participants.

On May 12, 1999 the Compensation Committee of the Board of Directors approved a plan to reprice stock options held by certain employees and Directors. Effective on that date, 349,150 options with an exercise price of \$12.33 per share were reissued at an exercise price of \$4.375 per share, the fair market value per share on the date of repricing. Under the provisions of Financial Accounting Standards Board Interpretation 44 (FIN 44) which was effective July 1, 2000, the Company is required to record non-cash compensation expense on the repriced options if the stock price exceeds certain threshold amounts. The provisions of FIN 44 will continue to apply until the repriced options are exercised, expire or are cancelled. There was \$15,376 of expense in Fiscal Year 2002 and no expense in Fiscal Years 2003 and 2001 as a result of applying FIN 44. FIN 44 could result in significant future non-cash compensation expense.

Options grants totaling 60,000 shares were made in Fiscal 2003 at an option average price of \$1.573. There were exercises of 2,500 options. There were cancellations of 5,332 options during Fiscal 2003 as a result of employees voluntarily terminating employment with the Company or lapses in options following terminations where an exercise period was allowed. As of November 1, 2003 option prices ranged from \$1.30 to

\$4.83 per share.

**Table of Contents**

A summary of the activity in the Company's stock options for the years ended October 27, 2001, November 2, 2002 and November 1, 2003 is presented below:

	Number of Shares	Weighted Average Exercise Price
Outstanding at October 28, 2000	1,043,985	\$ 3.56
Options granted	-0-	-0-
Options cancelled	(79,664)	4.20
Options exercised	(158,166)	3.96
Outstanding at October 27, 2001	806,155	3.41
Options granted	133,400	4.83
Options cancelled	(16,698)	2.94
Options exercised	(20,003)	3.77
Outstanding at November 2, 2002	902,854	3.63
Options granted	60,000	1.573
Options cancelled	(5,332)	4.535
Options exercised	(2,500)	2.938
Outstanding at November 1, 2003	955,022	\$ 3.495
Exercisable at November 1, 2003	813,089	
Exercisable at November 2, 2002	737,159	
Weighted average remaining contractual life (years) at November 1, 2003	5.84	

The Company applies the principles of APB Opinion 25 in accounting for employee stock option plans. The time vesting options are fixed as to the number of shares that may be acquired and the amount to be paid by the employee. Under APB Opinion 25, the Company generally recognizes no compensation expense with respect to such awards because the quoted market price and the amount to be paid by the employee are the same on the date of grant. The Company's Chief Executive Officer was granted 500,000 options on February 28, 1999; however, the measurement date was April 7, 1999, the date the shareholders approved an amendment to the Incentive Plan increasing the number of shares that could be offered. As such, compensation expense was measured as the difference in the market value of the Company's stock between the grant date and the measurement date and the expense was recognized over the two-year vesting period. The Company recognized compensation expense of approximately \$0.1 million in Fiscal 2001 relating to these options. There was no compensation expense in Fiscal 2002 or Fiscal 2003 related to these options.

The fair value of options granted has been estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

Stock Option Plan	
Fiscal	Fiscal

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	<u>2002</u>	<u>2003</u>
Option life (in years)	3.0	5.0
Risk-free interest rate	3.8%	2.5%
Stock price volatility	.86	.84
Dividend yield		
Proforma weighted average value using formula	\$ 2.74	\$ 1.05
Actual weighted average exercise price	\$ 4.83	\$ 1.57

**Table of Contents**

Had the Company determined compensation expense based on the fair value at the grant date for its options under SFAS No. 123, for Fiscal 2003 the Company would have had a net loss of \$261,000 and a net loss per share of less than \$0.01. For Fiscal 2002 the Company's net loss and net loss per share would have been increased. As a result of cancellation of options that were expensed in previous years, for Fiscal 2001, the Company's net income and net income per share would have been increased. The proforma impact of determining compensation expense under SFAS No. 123 is indicated below (in thousands):

	<b>Fiscal</b>	<b>Fiscal</b>	<b>Fiscal</b>
	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>Net income (loss)</b>			
As reported	\$ 4,426	\$ (366)	\$ (107)
Pro forma	\$ 4,681	\$ (435)	\$ (261)
<b>Net income (loss) per share</b>			
As reported	\$ 0.47	\$ (0.04)	\$ (0.01)
Pro forma	\$ 0.50	\$ (0.05)	\$ (0.03)

The Company awarded 200,000 shares of restricted stock under the Plan at a fair market value of \$1.16 per share. The shares were awarded to the Company's Chief Executive Officer and vest annually on or near the fiscal years ending 2003 through 2006. Compensation expense related to the restricted stock award is based upon the market price at the date of the award and is charged to earnings over the vesting period. The award also provides for tax gross up on the amount includable in the income of the recipient. This expense is based on the fair market value at the time of vesting and is charged to income in the fiscal year that vesting occurs. Compensation expense related to the restricted stock plan was \$17,048 in 2003.

**7. INCOME TAXES**

The provision (benefit) for income taxes on continuing operations included in the consolidated statements of operations consists of the following (in thousands):

	<b>Fiscal</b>	<b>Fiscal</b>	<b>Fiscal</b>
	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>Current Federal provision</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Current state provision	103	106	
Deferred Federal provision (benefit)	2,664	(133)	
Deferred state provision (benefit)	51	(94)	
<b>Provision (benefit) for income taxes</b>	<b>\$ 2,818</b>	<b>\$ (121)</b>	<b>\$ 0</b>

**Table of Contents**

A reconciliation between income taxes at the 35% statutory Federal income tax rate and the provision (benefit) for income taxes for Fiscal 2001, Fiscal 2002 and Fiscal 2003 is as follows (in thousands):

	Fiscal 2001	Fiscal 2002	Fiscal 2003
Income tax provision (benefit) at Federal statutory rate	\$ 2,535	\$ (169)	\$ (37)
Increase (decrease) in income taxes arising from effect of:			
State and local income taxes	154	(15)	4
Amortization of excess reorganization value	61		
Other	68	63	60
Tax benefit on reduction in valuation allowance			(27)
<b>Provision for income taxes</b>	<b>\$ 2,818</b>	<b>\$ (121)</b>	<b>\$ 0</b>

Presented below are the elements which comprise deferred tax assets and liabilities (in thousands):

	November 2, 2002	November 1, 2003
<b>Gross deferred assets:</b>		
Estimated allowance for doubtful accounts	\$ 790	\$ 735
Excess of tax over financial statement basis of inventory	547	436
Accruals deductible for tax purposes when paid	314	292
Deferred stock option expense deductible for tax purposes when paid	404	410
Pension liability deductible for tax purposes when paid	10,674	11,037
Postretirement benefits deductible for tax purposes when paid	1,430	1,483
Alternative minimum tax credit carryforward available	1,809	1,809
Deferred warranty income recognized for tax purposes when received	7,324	6,501
Excess of tax basis of intangibles over financial statement basis	3,167	2,852
Miscellaneous	3	14
Net operating loss carryforwards	35,810	39,545
Less valuation allowance	(43,440)	(46,505)
<b>Gross deferred assets</b>	<b>18,832</b>	<b>18,609</b>
<b>Gross deferred liabilities:</b>		
Excess of financial statement over tax basis of property, plant, and equipment	(6,801)	(6,578)
<b>Gross deferred liabilities</b>	<b>(6,801)</b>	<b>(6,578)</b>
<b>Net deferred tax asset</b>	<b>\$ 12,031</b>	<b>\$ 12,031</b>

For Fiscal 2003, the Company recorded no tax expense. The tax benefit at the statutory rate that would have arisen on the loss from continuing operations and by the impact of expenses not fully deductible for tax purposes, primarily meals and entertainment, was offset by a reduction in

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the valuation allowance. No tax benefit was recorded on the additional pension liability that was recorded during the year (see Note 9). Accordingly, this resulted in an increase in the valuation allowance. Although the Company did not generate income during the year at a level necessary to utilize its net deferred tax asset, the Company's management believes that income from future operations will more likely than not be sufficient to utilize the deferred tax asset, net of valuation allowance. The Company's management evaluates the realizability of our deferred tax asset by assessing the need for a valuation allowance on a quarterly basis. If it is determined that it is more likely than not that our deferred tax assets will not be recovered, a valuation allowance will be established against some or all of our deferred tax assets. Establishment of such an allowance could have a significant effect on future results of operation and financial position.

## **Table of Contents**

For Fiscal 2002, the Company recorded a tax benefit of \$0.1 million. The tax benefit is less than the benefit on continuing operations at the statutory rate due to the impact of expenses not deductible for tax purposes, primarily meals and entertainment. A current state tax provision is recorded due to the inability to offset income from profitable subsidiaries with those having a loss, in all jurisdictions. As a result of a valuation allowance, no benefit was recorded on the additional pension liability recorded as an adjustment to equity. A significant portion of the \$17.0 million increase in the valuation allowance resulted from the valuation allowance on the additional pension liability.

For Fiscal 2001, the Company recorded a tax expense of \$2.8 million. The Company evaluated its valuation allowance on its deferred tax asset. Based on historical and expected income of the continuing operations, a determination was made that the valuation allowance established in fresh start accounting should be decreased by \$2.8 million. Under applicable accounting guidelines such reduction is first applied to reduce Reorganization Value. Accordingly, Reorganization Value was eliminated (see Note 2).

At November 1, 2003, the Company had regular Federal net operating loss carryforwards for tax purposes of approximately \$100.0 million. The net operating loss carryforwards expire in years 2004 through 2023. The Company also has Federal alternative minimum tax net operating loss carryforwards of approximately \$117.0 million that expire in 2004 through 2023. 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 Federal loss carryforward expiring unutilized that will impair the net deferred tax asset. 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.

## 8. COMMITMENTS AND CONTINGENCIES

Leases - The Company leases office facilities, machinery and computer equipment under noncancellable operating leases and capital leases. Rent expense was approximately \$0.9 million in Fiscal 2001, \$0.7 million in Fiscal 2002 and \$0.7 million in Fiscal 2003.

**Table of Contents**

Future minimum payments, by year and in the aggregate, under the noncancellable capital and operating leases with terms of one year or more consist of the following at November 1, 2003 (in thousands):

<u>Fiscal Year Ending</u>	<u>Capital</u>	<u>Operating</u>
	<u>Lease</u>	<u>Leases</u>
2004	\$ 840	\$ 347
2005	1,032	144
2006	167	58
2007	0	30
Total future minimum lease payments	2,039	\$ 579
Less: amount representing interest	(173)	
Present value of net minimum lease payments (included in long-term debt - see Note 5)	\$ 1,866	

**Litigation** - 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. The Company believes it has meritorious defenses in all lawsuits in which the Company or its subsidiaries is a defendant. 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.

As previously reported, 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 1980s on approximately 140 Sears stores. Also as previously reported, in July, 2002, the Company's insurance carrier, Liberty Mutual Insurance Company (Liberty), informed the Company that it no longer believed it had an obligation to contribute to settlement or defense of this matter. The Company subsequently filed a lawsuit for declaratory, injunctive, and monetary relief against Liberty Mutual. In January, 2003, the court found that Liberty does have a duty to defend the Company based on the counts remaining in the case. Further, in January, 2003, the court granted JPS summary judgment motion on Sears' breach of contract claim. These orders are not final and may be subject to reconsideration or appeal. To the extent these rulings remain in effect, the number of roofs involved in the case will be substantially reduced, and the Company believes that an unfavorable resolution of the remaining actions would not have a material adverse effect on the business, results of operations or financial condition of the Company.

On certain of its products, the Company provides a warranty against defects in materials and workmanship under separately priced extended warranty contracts generally for a period of 10 years. Revenue from such extended warranty contracts is deferred and recognized as income on a straight-line basis over the contract period. The cost of servicing such product warranties is charged to expense when claims become estimable.

The following table presents the change in the Company's aggregate warranty related liability accounts:

Beginning balance at November 2, 2002	\$ 19,273,272
Accruals for warranties issued	2,089,437

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Accruals for pre-existing warranties	2,357,121
Settlements and revenue amortization	(6,613,106)
	<hr/>
Ending balance at November 1, 2003	\$ 17,106,724
	<hr/>

### 9. RETIREMENT PLANS

Defined Benefit Pension Plan - Substantially all of the Company's employees are covered by a Company-sponsored defined benefit pension plan. The plan also provides benefits to individuals employed by the businesses which were sold or plants which were closed by the Company. The benefits of these former employees were frozen at the respective dates of sale of the businesses or closure of the plants. Accordingly, these former employees will retain benefits earned through the respective disposal dates;

**Table of Contents**

however, they will not accrue additional benefits. The plan provides pension benefits that are based on the employees' compensation during the last 10 years of employment. The Company's policy is to fund the annual contribution required by applicable regulations.

Assets of the pension plan are invested in a bond portfolio covering specific liabilities and in common and preferred stocks, government and corporate bonds, and various short-term investments. During Fiscal 1999, the pension plan also purchased approximately 1.9 million shares of the Company's common stock in open market and negotiated transactions. This common stock accounted for less than 10% of the pension plan's total assets at the time of purchase.

Components of net periodic pension cost include the following (in thousands):

	Fiscal 2001	Fiscal 2002	Fiscal 2003
Service cost-benefits earned during the period	\$ 900	\$ 417	\$ 495
Interest cost on projected benefit obligation	7,532	7,751	7,347
Expected return on plan assets	(9,378)	(9,394)	(9,129)
Recognized actuarial loss		133	301
<b>Net periodic pension cost (income)</b>	<b>\$ (946)</b>	<b>\$ (1,093)</b>	<b>\$ (986)</b>

The weighted-average rates used in determining pension cost for the plan are as follows:

	Fiscal 2001	Fiscal 2002	Fiscal 2003
Discount rate	7.25%	7.00%	6.50%
Expected long-term rate of return on plan assets	9.00%	9.00%	9.00%
Rate of compensation increase	Age-related	3.50%	3.50%

A reconciliation of the plan's projected benefit obligation, fair value of plan assets, funding status, and other applicable information is as follows (in thousands):

	November 2, 2002	November 1, 2003
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$ 104,261	\$ 113,956
Service cost	417	494
Interest cost	7,751	7,347
Benefits paid	(8,212)	(9,895)

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Actuarial (gain) loss	9,739	537
Projected benefit obligation at end of year	\$ 113,956	\$ 112,439

*(Table continued on next page)*

**Table of Contents***(Table continued from previous page)*

	November 2, 2002	November 1, 2003
	<u>2002</u>	<u>2003</u>
<b>Change in plan assets:</b>		
Fair value of plan assets at beginning of year	\$ 104,828	\$ 84,706
Actual return (loss) on plan assets	(11,910)	(103)
Employer contributions		6,919
Benefits paid	(8,212)	(9,895)
	<u>84,706</u>	<u>81,627</u>
Projected benefit obligation (greater than) less than Plan assets	(29,250)	(30,812)
Unrecognized actuarial loss	42,137	51,603
Additional minimum liability recognized as a reduction of shareholder equity	(40,976)	(49,835)
	<u>\$ (28,089)</u>	<u>\$ (29,044)</u>
<b>Recognized in:</b>		
Other noncurrent assets	\$ 25	\$ 21
Accrued pension costs	(28,114)	(29,065)
	<u>\$ (28,089)</u>	<u>\$ (29,044)</u>

In addition to the changes shown above, the Company in Fiscal 2002 also changed the mortality table to a table considered more accurate under current guidance. The change in mortality table increased pension liabilities by approximately \$5.0 million. The change in the discount rate more closely approximates current interest rates on long-term high quality obligations and the change in the rate of compensation increase more closely reflects Company historical experience and projections. The provisions of SFAS No. 87, Employers Accounting for Pensions, required the Company to record an accrued pension cost of approximately \$29.1 million at November 1, 2003 and \$28.1 million at November 2, 2002. The liability represents the amount by which the accumulated benefit obligation exceeds the sum of the fair market value of plan assets and accrued amounts previously recorded. This amount combined with the elimination of the Company's prepaid pension asset is recorded as a reduction to a separate component of shareholders' equity labeled Additional minimum pension liability in the amount of \$49.8 million and \$41.0 million on the accompanying consolidated balance sheet as of November 1, 2003 and November 2, 2002, respectively.

**401(k) Savings Plan** - The Company also has a savings, investment and profit sharing plan available to employees meeting eligibility requirements. The plan is a tax qualified plan under Section 401(k) of the Internal Revenue Code. The Company makes a matching contribution of 25% of each participant's contribution with a maximum matching contribution of 1-1/2% of the participant's base compensation. Company contributions were approximately \$187,000 in Fiscal 2001, \$171,000 in Fiscal 2002 and \$165,000 in Fiscal 2003.

**Postretirement Benefits** - The Company has several unfunded postretirement plans that provide certain health care and life insurance benefits to eligible retirees. The plans are contributory, with retiree contributions adjusted periodically, and contain cost-sharing features such as deductibles and coinsurance. The Company's life insurance plan provides benefits to both active employees and retirees. Active employee contributions in excess of the cost of providing active employee benefits are applied to reduce the cost of retirees' life insurance benefits. The following table sets forth the status of the Company's postretirement plans as recorded in the accompanying consolidated financial statements:



**Table of Contents**

Net periodic postretirement benefit expense included the following components (in thousands):

	<b>Fiscal</b>	<b>Fiscal</b>	<b>Fiscal</b>
	<b>2001</b>	<b>2002</b>	<b>2003</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Service cost for benefits earned	\$ 10	\$ 14	\$ 15
Interest cost on APBO	229	283	187
Recognized actuarial loss (gain)	(4)	18	(59)
	<u>          </u>	<u>          </u>	<u>          </u>
Net periodic postretirement cost	<b>\$ 235</b>	<b>\$ 315</b>	<b>\$ 143</b>
	<u>          </u>	<u>          </u>	<u>          </u>

The weighted-average rates used in determining postretirement medical and life insurance costs are as follows:

	<b>Fiscal</b>	<b>Fiscal</b>	<b>Fiscal</b>
	<b>2001</b>	<b>2002</b>	<b>2003</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Discount rate	7.25%	7.00%	6.50%

A reconciliation of the postretirement medical and life insurance plan's projected benefit obligation and funding status is as follows (in thousands):

	<b>November 2,</b>	<b>November 1,</b>
	<b>2002</b>	<b>2003</b>
	<u>          </u>	<u>          </u>
<b>Change in benefit obligation:</b>		
Projected benefit obligation at beginning of year	\$ 3,569	\$ 3,557
Service cost	14	15
Interest cost	283	187
Net benefits paid	(327)	(7)
Actuarial (gain) or loss	18	(59)
	<u>          </u>	<u>          </u>
Projected benefit obligation at end of year	<b>\$ 3,557</b>	<b>\$ 3,693</b>
	<u>          </u>	<u>          </u>
<b>Reconciliation of funded status:</b>		
Funded status	\$ (3,557)	\$ (3,693)
Unrecognized actuarial (gain) or loss	0	0
	<u>          </u>	<u>          </u>
Net amount recognized at year-end	<b>\$ (3,557)</b>	<b>\$ (3,693)</b>
	<u>          </u>	<u>          </u>

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Since the Company has capped its annual liability per person and all future cost increases will be passed on to retirees, the annual rate of increase in health care costs does not affect the postretirement benefit obligation.

Postemployment Benefits The Company provides certain benefits to former or inactive employees after employment but before retirement. In accordance with SFAS No. 112, these benefits are recognized on the accrual basis of accounting. The liability for postemployment benefits of \$0.2 million at November 1, 2003 and November 2, 2002 of \$0.2 million is included in other long-term liabilities in the accompanying consolidated financial statements.

### 10. 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.

**Table of Contents**

The Company previously identified three other segments which met its criteria as reportable segments (the cotton commercial products, yarn sales and apparel segments), all of which have been exited.

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:

Industry segment information (in thousands):

	<b>Fiscal</b>	<b>Fiscal</b>	<b>Fiscal</b>
	<b>Year</b>	<b>Year</b>	<b>Year</b>
	<b>Ended</b>	<b>Ended</b>	<b>Ended</b>
	<b>October 27,</b>	<b>November 2,</b>	<b>November 1,</b>
	<b>2001</b>	<b>2002</b>	<b>2003</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net sales:</b>			
Elastomerics	\$ 82,409	\$ 75,466	\$ 79,620
Glass	65,217	50,897	49,109
	<u>          </u>	<u>          </u>	<u>          </u>
Net sales	\$ 147,626	\$ 126,363	\$ 128,729
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Operating profit (loss):<sup>(1)</sup></b>			
Elastomerics	\$ 3,922	\$ (256)	\$ 483
Glass	5,655	504	125
	<u>          </u>	<u>          </u>	<u>          </u>
Operating profit	9,577	248	608
Interest expense, net	(2,333)	(735)	(715)
	<u>          </u>	<u>          </u>	<u>          </u>
Income (loss) before income taxes	\$ 7,244	\$ (487)	\$ (107)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Depreciation and amortization expense:</b>			
Elastomerics	\$ 2,645	\$ 2,583	\$ 2,330
Glass	3,152	3,141	3,095
	<u>          </u>	<u>          </u>	<u>          </u>
	\$ 5,797	\$ 5,724	\$ 5,425
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Capital expenditures:</b>			
Elastomerics	\$ 1,644	\$ 547	\$ 247
Glass	4,178	427	0
	<u>          </u>	<u>          </u>	<u>          </u>
	\$ 5,822	\$ 974	\$ 247
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Identifiable assets:</b>			
Elastomerics	\$ 54,684	\$ 45,651	\$ 44,584

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Glass	55,221	43,370	38,787
	<u>55,221</u>	<u>43,370</u>	<u>38,787</u>
	<u>\$ 109,905</u>	<u>\$ 89,021</u>	<u>\$ 83,371</u>

(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, employee benefits and professional fees.

11. UNAUDITED INTERIM FINANCIAL DATA (in thousands except per share amounts)

The results for each quarter include all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for interim periods. The consolidated financial results on an interim basis are not necessarily indicative of future financial results on either an interim or annual basis. Selected consolidated financial data for each quarter within Fiscal 2002 and Fiscal 2003 are as follows:

**Table of Contents**

	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>
	<b>Quarter</b>	<b>Quarter</b>	<b>Quarter</b>	<b>Quarter</b>
<b>Year Ended November 2, 2002:</b>				
Net sales	\$ 27,131	\$ 31,927	\$ 32,662	\$ 34,643
Cost of sales	22,833	27,646	27,717	29,903
Gross profit	4,298	4,281	4,945	4,740
Selling, general and administrative expenses	4,812	4,297	4,513	4,394
Operating profit (loss)	(514)	(16)	432	346
Interest expense, net	215	194	155	171
Income (loss) before income taxes	(729)	(210)	277	175
Income taxes (benefit)	(284)	(82)	108	137
Net income (loss)	\$ (445)	\$ (128)	\$ 169	\$ 38
Diluted earnings (loss) per common share	\$ (0.05)	\$ (0.01)	\$ 0.02	\$ 0.00
<b>Year Ended November 1, 2003:</b>				
Net sales	\$ 28,779	\$ 29,493	\$ 35,212	\$ 35,245
Cost of sales	25,207	25,989	29,557	29,834
Gross profit	3,572	3,504	5,655	5,411
Selling, general and administrative expenses	4,395	4,868	4,522	3,749
Operating profit (loss)	(823)	(1,364)	1,133	1,662
Interest expense, net	155	165	190	205
Income (loss) before income taxes	(978)	(1,529)	943	1,457
Income taxes (benefit)	(381)	0	381	0
Net income (loss)	\$ (597)	\$ (1,529)	\$ 562	\$ 1,457
Diluted earnings (loss) per common share	\$ (0.06)	\$ (0.17)	\$ 0.06	\$ 0.16

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

**Item 9A. DISCLOSURE CONTROLS AND PROCEDURES**

(a) Evaluation of disclosure controls and procedures.

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We maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Security and Exchange Commission rules and forms. The Company has evaluated the effectiveness of the design and operation of these disclosure controls and procedures pursuant to Exchange Act Rule 13a-14(c) and 15d-14(c) within 90 days of the filing date of this Annual Report on Form 10-K. Based on the evaluation, under the supervision and with the participation of the Company's management, the Company's chief executive officer and chief financial officer have concluded that these disclosure controls and procedures are effective.

(b) Changes in internal controls.

There were no significant changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial

**Table of Contents**

reporting. There were no significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information, nor was there any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

**PART III**

**Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.**

The information required by Item 10 of Form 10-K with respect to identification of directors and executive officers is incorporated by reference from the information contained in the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held March 11, 2004 (the Proxy Statement).

**Item 11. EXECUTIVE COMPENSATION.**

The information required by Item 11 of Form 10-K is incorporated by reference from the information contained in the Proxy Statement.

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

See Item 5 for information regarding securities authorized for issuance under equity compensation plans. The remaining information required by Item 12 of Form 10-K is incorporated by reference from the information contained in the Proxy Statement.

**Item 13. CERTAIN RELATIONSHIP AND RELATED TRANSACTIONS.**

None.

**Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

Not applicable.

**PART IV**

**Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE, AND REPORTS ON FORM 8-K.**

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- (a) (1) The following financial statements are included in Item 8:
- (i) Report of Independent Auditors.
  - (ii) Consolidated Balance Sheets as of November 1, 2003 and November 2, 2002.
  - (iii) Consolidated Statements of Operations for the fiscal years ended November 1, 2003, November 2, 2002 and October 27, 2001.
  - (iv) Consolidated Statements of Shareholders' Equity for the fiscal years ended November 1, 2003, November 2, 2002 and October 27, 2001.
  - (v) Consolidated Statements of Cash Flows for the fiscal years ended November 1, 2003, November 2, 2002 and October 27, 2001.
  - (vi) Notes to Consolidated Financial Statements.

**Table of Contents**

**Notice Regarding Arthur Andersen LLP.**

Arthur Andersen LLP audited our consolidated financial statements for the fiscal year ended October 27, 2001 and issued a report thereon dated December 6, 2001. Arthur Andersen has not reissued its report. Effective August 5, 2002, we terminated the engagement of Arthur Andersen LLP and engaged PricewaterhouseCoopers LLP to serve as our independent accountants for the fiscal year ended November 2, 2002.

The registrant is primarily a holding company and all direct subsidiaries are wholly owned.

- (2) The financial statement schedule required by Item 8 is listed on Index to Financial Statement Schedule, starting at page S-1 of this report.
  
- (3) The exhibits required by Item 601 of Regulation S-K are listed in the accompanying Index to Exhibits. Registrant will furnish to any securityholder, upon written request, any exhibit listed in the accompanying Index to Exhibits upon payment by such securityholder of registrant's reasonable expenses in furnishing any such exhibit.
  
- (b) Form 8-K relating to change in registrant's certifying accountant, filed on August 7, 2002.
  
- (c) Reference is made to Item 14(a)(3) above.
  
- (d) Reference is made to Item 14(a)(2) above.

**Table of Contents****INDEX TO EXHIBITS**

The following is a complete list of Exhibits filed as part of this report, which are incorporated herein:

<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
3.1	Amended and Restated By-laws of JPS.(H)
3.2	Certificate of Incorporation of JPS Industries, Inc. (L)
10.7	Trademark License Agreement, dated as of May 9, 1988, by and between J.P. Stevens and JPS Acquisition Corp. (predecessor to the Company).(A)
10.8	Omnibus Real Estate Closing Agreement, dated as of May 9, 1988, by and among J.P. Stevens, JPS Acquisition Corp., JPS Acquisition Automotive Products Corp., JPS Acquisition Carpet Corp., JPS Acquisition Industrial Fabrics Corp., JPS Acquisition Converter and Yarn Corp. and JPS Acquisition Elastomerics Corp.(A)
10.9	Purchase Agreement, dated as of April 24, 1988, by and among JPS Holding Corp., the Company, Odyssey Partners, West Point-Pepperell, Inc., STN Holdings Inc., Magnolia Partners, L.P. and J.P. Stevens.(A)
10.26	Employment Agreement dated October 9, 1997, between the Company and Monnie L. Broome.(H)
10.36	1997 Incentive and Capital Accumulation Plan dated as of October 9, 1997.(H)
10.44	Employment Agreement, dated February 29, 1999, between the Company and Michael L. Fulbright.(J)
10.45	Stock Option Agreement, dated February 28, 1999, between the Company and Michael L. Fulbright.(J)
10.46	Amendment to the JPS Textile Group, Inc. 1997 Incentive and First Capital Accumulation Plan.(J)
10.56	Employment Agreement dated May 31, 2000, between the Company and Charles R. Tutterow.(N)
10.58	Revolving Credit and Security Agreement dated May 9, 2001, by and among JPS, C&I, Elastomerics and First Union National Bank.(P)
10.59	Employment Agreement Amendment dated July 31, 2001, between the Company and Michael L. Fulbright.(Q)
10.60	First Amendment to the Revolving Credit & Security Agreement, dated as of April 26, 2002, by and among JPS, C&I, Elastomerics and Wachovia Bank, N.A. (successor by merger to First Union National Bank).(R)
10.61	Employment Agreement Amendment dated May 8, 2002, between the Company and Charles R Tutterow. (R)
10.62	Employment Agreement Amendment dated December 19, 2002, between the Company and Charles R. Tutterow. (S)

**Table of Contents**

10.63	Indemnification Agreement between the Company and certain officers and directors. (S)
10.64	Letter of Waiver of Default dated December 31, 2002, under the Revolving Credit and Security Agreement dated May 9, 2001, and among JPS, C&I, Elastomerics and Wachovia Bank, N.A. (S)
10.65	Letter of Waiver of Default dated June 12, 2003, under the Revolving Credit and Security Agreement dated May 9, 2001, among JPS, C&I, Elastomerics and Wachovia Bank, N.A. (T)
10.66	Letter of Waiver of Default dated September 11, 2003, under the Revolving Credit and Security Agreement dated May 9, 2001, among JPS, C&I, Elastomerics and Wachovia Bank, N.A. (U)
10.67	Letter of Modification of Obligation dated September 11, 2003, under the Revolving Credit and Security Agreement dated May 9, 2001, among JPS, C&I, Elastomerics and Wachovia Bank, N.A. (U)
10.68	Restricted Stock Award Agreement, dated August 5, 2003, between the Company and Michael L. Fulbright. (Filed Herein).
10.69	Employment Agreement, dated August 5, 2003, between the Company and Michael L. Fulbright. (Filed Herein).
10.70	Employment Agreement, dated December 1, 2003, between the Company and Charles R. Tutterow. (Filed Herein).
10.71	Letter of Waiver of Default dated January 27, 2004, under the Revolving Credit and Security Agreement dated May 9, 2001, and among JPS, C&I, Elastomerics and Wachovia Bank, N.A. (Filed Herein).
10.72	Letter of Modification of Obligation dated January 22, 2004, under the Revolving Credit and Security Agreement dated May 9, 2001, and among JPS, C&I, Elastomerics and Wachovia Bank, N.A. (Filed Herein).
11.1	Statement re: Computation of Per Share Earnings not required since such computation can be clearly determined from the material contained herein.
12.1	Computation of Ratio of Earnings to Fixed Charges not required for Form 10-K per Item 503(d) of Regulation S-K.
12.2	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends not required for Form 10-K per Item 503(d) of Regulation S-K.
21.1	List of Subsidiaries of the Company.(C)
23.1	Consent of PricewaterhouseCoopers LLP, independent auditors. (S).
31.1	Certification of the Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed Herein).
31.2	Certification of the Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed Herein).
32.1	Certification by CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed Herein).

**Table of Contents**

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- (A) Previously filed as an exhibit to the Company s Annual Report on Form 10-K for the year ended October 30, 1993.
- (C) Previously filed as an exhibit to the Company s Annual Report on Form 10-K for the year ended October 29, 1994.
- (H) Previously filed as an exhibit to the Company s Annual Report on Form 10-K for the year ended November 1, 1997.
- (J) Previously filed as an exhibit to the Company s Current Report on Form 8-K dated March 4, 1999.
- (L) Previously filed as an exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended July 31, 1999.
- (N) Previously filed as an exhibit to the Company s Annual Report on Form 10-K for the year ended October 28, 2000.
- (P) Previously filed as an exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended April 28, 2001.
- (Q) Previously filed as an exhibit to the Company s Annual Report on Form 10-K for the year ended October 27, 2001.
- (R) Previously filed as an exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended April 27, 2002.
- (S) Previously filed as an exhibit to the Company s Annual Report on Form 10-K for the year ended November 2, 2002.
- (T) Previously filed as an exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended May 3, 2003.
- (U) Previously filed as an exhibit to the Company s Quarter Report on Form 10-Q for the quarter ended August 2, 2003.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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: January 29, 2004

By: /s/ Charles R. Tutterow

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ Michael L. Fulbright <hr/> <b>Michael L. Fulbright</b>	Director, Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	January 29, 2004
/s/ Robert J. Capozzi <hr/> <b>Robert J. Capozzi</b>	Director	January 29, 2004
/s/ Nicholas P. DiPaolo <hr/> <b>Nicholas P. DiPaolo</b>	Director	January 29, 2004
/s/ John M. Sullivan, Jr. <hr/> <b>John M. Sullivan, Jr.</b>	Director	January 29, 2004
/s/ Charles R. Tutterow <hr/> <b>Charles R. Tutterow</b>	Director, Executive Vice President, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	January 29, 2004

**Table of Contents**

**EXHIBIT LIST**

<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>
10.68	Restricted Stock Award Agreement dated August 5, 2003, between the Company and Michael L. Fulbright.
10.69	Employment Agreement, dated August 5, 2003, between the Company and Michael L. Fulbright.
10.70	Employment Agreement, dated December 1, 2003, between the Company and Charles R. Tutterow.
10.71	Letter of Waiver of Default dated January 27, 2004, under the Revolving Credit and Security Agreement dated May 9, 2001, and among JPS, C&I, Elastomerics and Wachovia Bank, N.A.
10.72	Letter of Modification of Obligation dated January 22, 2004, under the Revolving Credit Agreement dated May 9, 2001, and among JPS, C&I, Elastomerics and Wachovia Bank, N.A.
11	Statement re: Computation of Per Share Earnings not required since such computation can be clearly determined from the material contained herein.
23.1	PricewaterhouseCoopers, LLP Consent.
31.1	Certification of the Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**Table of Contents**

JPS INDUSTRIES, INC.

INDEX TO SCHEDULE

INDEX TO FINANCIAL STATEMENT SCHEDULE

For the fiscal years ended October 27, 2001, November 2, 2002, and November 1, 2003.

FINANCIAL STATEMENT SCHEDULE

II. Valuation and Qualifying Accounts and Reserves

S-2

Note: All other schedules are omitted because they are not applicable or not required, or because the required information is shown either in the consolidated financial statements or in the notes thereto.

S-1

**Table of Contents**

JPS INDUSTRIES, INC.  
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

SCHEDULE II

(IN THOUSANDS)

Column A	Column B	Column C		Column D	Column E
Classification	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts Describe	Deductions Describe	Balance at End of Period
			(a)	(b)	
<b>Allowances Deducted from Asset to Which They Apply:</b>					
<b>Fiscal Year Ended October 27, 2001 (52 Weeks)</b>					
Allowance for doubtful accounts	\$ 700	\$ 2	\$	\$ 449	\$ 253
Claims, returns and other allowances	324	214	77	184	431
	<u>\$ 1,024</u>	<u>\$ 216</u>	<u>\$ 77</u>	<u>\$ 633</u>	<u>\$ 684</u>
<b>Fiscal Year Ended November 2, 2002 (53 Weeks)</b>					
Allowance for doubtful accounts	\$ 253	\$ 6	\$	\$ 69	\$ 190
Claims, returns and other allowances	431	52	116	235	364
	<u>\$ 684</u>	<u>\$ 58</u>	<u>\$ 116</u>	<u>\$ 304</u>	<u>\$ 554</u>
<b>Fiscal Year Ended November 1, 2003 (52 Weeks)</b>					
Allowance for doubtful accounts	\$ 190	\$ 8	\$ (67)	\$ 6	\$ 125
Claims, returns and other allowances	364	57	231	343	309
	<u>\$ 554</u>	<u>\$ 65</u>	<u>\$ 164</u>	<u>\$ 349</u>	<u>\$ 434</u>

- (a) Change in various reserves charged to net sales.  
(b) Uncollected receivables written off, net of recoveries.