

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

DELTA WOODSIDE INDUSTRIES INC /SC/

CIK: **806624** | IRS No.: **570535180** | State of Incorpor.: **SC** | Fiscal Year End: **0628**
Type: **10-Q** | Act: **34** | File No.: **001-10095** | Film No.: **1523913**
SIC: **2211** Broadwoven fabric mills, cotton

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended December 30, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File number 1-10095

DELTA WOODSIDE INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

SOUTH CAROLINA

57- 0535180

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

100 Augusta Street
Greenville, South Carolina

29601

(Address of principal executive offices)

(Zip Code)

864\255-4100

(Registrant's telephone number, including area code)

(Not Applicable)

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

Indicate by check mark whether the registrant (1) has filed all reports 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 the number of shares outstanding of each of the issuer's classes of
common stock, as of the latest practicable date.

Common Stock, \$.01 Par Value-23,749,425 shares as of February 2, 2001

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DELTA WOODSIDE INDUSTRIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 30, 2000	July 1, 2000
	-----	-----
	(Unaudited)	
	(In thousands)	
ASSETS		
CURRENT ASSETS		
<S>	<C>	<C>
Cash and cash equivalents	\$ 2,611	\$ 19,385
Accounts receivable:		
Factor	57,884	71,897
Less allowances for doubtful accounts and returns	124	173
	-----	-----
	57,760	71,724
Inventories:		
Finished goods	10,365	4,916
Work in process	26,450	31,324
Raw materials and supplies	7,462	7,679
	-----	-----
	44,277	43,919
Deferred income taxes	3,163	3,288
Prepaid expenses and other current assets	453	537
	-----	-----
TOTAL CURRENT ASSETS	108,264	138,853
PROPERTY, PLANT AND EQUIPMENT		
Cost	163,549	163,012
Accumulated depreciation	76,356	71,632
	-----	-----
	87,193	91,380
Deferred Loan Costs and Other Assets	4,591	7,613
	-----	-----
	\$ 200,048	\$237,846
	=====	=====

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DELTA WOODSIDE INDUSTRIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEET--Continued

	December 30, 2000	July 1, 2000
	-----	-----
	(Unaudited)	
	(In thousands)	
LIABILITIES		
CURRENT LIABILITIES		
<S>	<C>	<C>
Trade accounts payable	10,951	14,611
Accrued employee compensation	1,134	3,649
Accrued and sundry liabilities	13,564	17,478
	-----	-----
TOTAL CURRENT LIABILITIES	25,649	35,738
LONG-TERM DEBT	83,815	115,078
DEFERRED COMPENSATION	6,375	6,125
SHAREHOLDERS' EQUITY		
Preferred Stock		
Common Stock, par value \$.01-authorized		
50,000,000 shares, issued and outstanding		
23,749,000 shares (net of 407,200 treasury shares) at		
December 30, 2000 and 23,999,000 shares at July 1, 2000		
	237	240
Additional paid-in capital	85,669	86,145
Accumulated deficit	(1,697)	(5,480)
	-----	-----
TOTAL SHAREHOLDER'S EQUITY	84,209	80,905
COMMITMENTS AND CONTINGENCIES	\$ 200,048	\$237,846
	=====	=====

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See notes to consolidated financial statements.

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DELTA WOODSIDE INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended		Six Months Ended	
	December 30, 2000	January 1, 2000	December 30, 2000	January 1, 2000
	-----	-----	-----	-----
	(In thousands, except per share data)		(In thousands, except per share data)	
<S>	<C>	<C>	<C>	<C>
Net Sales	\$ 59,697	\$ 58,082	\$ 122,896	\$ 115,388
Cost of goods sold	53,780	51,743	107,705	102,948
	-----	-----	-----	-----
Gross profit on sales	5,917	6,339	15,191	12,440
Selling, general and administrative expense	3,580	5,151	6,921	8,914
Other income (expense)	(12)	58	363	103
	-----	-----	-----	-----
OPERATING PROFIT	2,325	1,246	8,633	3,629
Interest expense (income):				
Interest expense	2,703	4,595	5,674	9,137
Interest (income)	(173)	(367)	(458)	(542)
	-----	-----	-----	-----
	2,530	4,228	5,216	8,595
INCOME (LOSS) FROM CONTINUING OPERATIONS				
BEFORE INCOME TAXES	(205)	(2,982)	3,417	(4,966)
Income tax expense (benefit)	(61)	954	1,225	409

INCOME (LOSS) FROM CONTINUING OPERATIONS	(144)	(3,936)	2,192	(5,375)
Extraordinary gain (net of taxes)	946		1,585	
Income from discontinued operations net of applicable income taxes		1,580		3,143
NET INCOME (LOSS)	\$ 802	\$ (2,356)	\$ 3,777	\$ (2,232)
Basic and diluted earnings (loss) per share:				
Continuing operations	\$ (0.01)	\$ (0.16)	\$ 0.09	\$ (0.22)
Extraordinary gain	\$ 0.04	\$ 0.00	\$ 0.07	\$ 0.00
Discontinued operations	\$ 0.00	\$ 0.06	\$ 0.00	\$ 0.13
Net earnings (loss)	\$ 0.03	\$ (0.10)	\$ 0.16	\$ (0.09)
Weighted average shares outstanding	24,115	23,864	24,132	23,832

</TABLE>

See notes to consolidated financial statements.

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<TABLE>
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DELTA WOODSIDE INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended	
	December 30, 2000	January 1, 2000
	(In thousands)	
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net Income	\$ 3,777	\$ (2,232)
Adjustments to reconcile net income to net cash provided by operating activities:		
Discontinued operations		18,614
Depreciation	5,557	5,391
Amortization	212	346
Write off of deferred loan costs	783	
Gain on early retirement of debt	(3,242)	
Provision for deferred income taxes	1,948	
Changes in operating assets and liabilities	4,118	6,403
Other	(125)	886
NET CASH PROVIDED BY OPERATING ACTIVITIES	13,028	29,408
INVESTING ACTIVITIES		
Property, plant and equipment purchases	(1,956)	(2,249)
Proceeds of dispositions of assets	450	13
Investing activities of discontinued operations		101
Other	204	(9)
NET CASH (USED) BY INVESTING ACTIVITIES	(1,302)	(2,144)
FINANCING ACTIVITIES		
Proceeds from revolving lines of credit	3,003	118,936
Repayments on revolving lines of credit	(3,003)	(120,641)
Scheduled principal payments of long-term debt		(149)
Repurchase and retirement of long-term debt	(28,021)	
Repurchase of common stock	(479)	
Other		(126)
NET CASH (USED) BY FINANCING ACTIVITIES	(28,500)	(1,980)

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(16,774)	25,284
Cash and cash equivalents at beginning of year	19,385	14,066
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF QUARTER	\$ 2,611	\$ 39,350
	=====	=====

</TABLE>

See notes to consolidated financial statements.

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DELTA WOODSIDE INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

December 30, 2000

NOTE A--BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Delta Woodside Industries, Inc. ("the Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended December 30, 2000 are not necessarily indicative of the results that may be expected for the year ending June 30, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended July 1, 2000.

NOTE B-INCOME TAXES

The effective income tax rate on income from continuing operations for the six months ended December 30, 2000 is 35.9%, compared to a negative 8.2% on a loss for the six months ended January 1, 2000. The negative tax rate for the six months ended January 1, 2000 was the result of various minimum state taxes and valuation allowance increases, while the tax rate for the current six months ended does not reflect any valuation allowance adjustments.

NOTE C-LONG-TERM DEBT, CREDIT ARRANGEMENTS, AND NOTES PAYABLE

A subsidiary of the Company, Delta Mills, Inc., has a secured three-year \$50 million revolving bank credit facility. At each of July 1, 2000 and December 30, 2000, no amounts were outstanding under this facility. The credit facility contains restrictive covenants that, among other things, require that the Delta Mills' Maximum Leverage Ratio, as defined therein, not exceed specified amounts. The agreement also restricts additional indebtedness, dividends, and capital expenditures. The payment of dividends with respect to Delta Mills' stock is permitted if there is no event of default and there is at least \$1 of availability under the facility.

During the quarter ended December 30, 2000, the Company's Delta Mills, Inc. subsidiary acquired for \$13,750,876 a portion of its 9 5/8% Senior Notes. The aggregate principal face amount of the acquired Senior Notes was \$15,610,000. The Company recognized an extraordinary gain on the early retirement of debt of \$946,000 net of taxes of \$522,000.

NOTE D - SPIN-OFF TRANSACTION AND DISCONTINUED OPERATIONS

On October 4, 1999, the Company announced its decision to spin-off to its current shareholders, as separate public companies, its Delta Apparel and Duck Head Apparel divisions. This transaction was completed on June 30, 2000. Since these businesses are no longer a part of the Company, the results of these segments have been reclassified and reported as discontinued operations.

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Summarized results of operations for discontinued businesses are as follows (in thousands):

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	Three Months Ended		Six Months Ended	
	December 30, 2000	January 1, 2000	December 30, 2000	January 1, 2000
Net Sales	\$ 0	\$ 34,831	\$ 0	\$ 79,945
Cost and expenses	0	34,186	0	77,145
Income before income taxes	0	645	0	2,800
Income tax (benefit)	0	(935)	0	(343)
Income from discontinued operations	0	\$ 1,580	\$ 0	\$ 3,143

</TABLE>

Summarized statements of cash flows for discontinued operations are as follows (in thousands):

	Six Months Ended	
	December 30, 2000	January 1, 2000
Net income from discontinued operations	\$ 0	\$ 3,143
Depreciation	0	4,807
Amortization	0	0
Other	0	(25)
Changes in operating assets and liabilities	0	13,832
Subtotal	0	18,614
Net cash provided by operating activities	0	21,757
Property, plant and equipment purchases	0	(1,300)
Proceeds of dispositions	0	1,400
Other	0	1
Net cash provided by investing activities	0	101
Net cash provided by discontinued operations	\$ 0	\$ 21,858

NOTE E - SEGMENT INFORMATION

The Company's only operating division, Delta Mills, engages in the manufacture and sale of a broad range of finished apparel fabrics primarily to branded apparel manufacturers and resellers and private label manufacturers.

The following tables summarize information about segment profit and loss for the six months ended December 30, 2000 and January 1, 2000 and at December 30, 2000 and January 1, 2000, respectively:

Six Months Ended	Delta Mills	Discontinued Operations	Corporate and Other	Total
December 30, 2000				
Net Sales	\$ 122,896	\$ 0	\$ 0	\$122,896
Operating Profit	8,634	0	(1)	8,633
Total Assets at December 30, 2000	\$ 193,270	\$ 0	\$ 6,778	\$200,048

Six Months Ended	Delta Mills	Discontinued Operations	Corporate and Other	Total
January 1, 2000				
Net Sales	\$ 115,388	\$ 0	\$ 0	\$115,388
Operating Profit	5,047	0	(1,418)	3,629
Total Assets at January 1, 2000	\$ 233,703	\$ 88,580	\$ 8,975	\$331,258

The following discussion contains certain "forward-looking statements". All statements, other than statements of historical fact, that address activities, events or developments that the Company expects or anticipates will or may occur in the future, including such matters as future revenues, future cost savings, future capital expenditures, business strategy, competitive strengths, goals, plans, references to future success and other such information are forward-looking statements. The words "estimate", "project", "anticipate", "expect", "intend", "believe" and similar expressions are intended to identify forward-looking statements.

The forward-looking statements in this Quarterly Report are based on the Company's expectations and are subject to a number of business risks and uncertainties, any of which could cause actual results to differ materially from those set forth in or implied by the forward-looking statements. These risks and uncertainties include, among others, changes in the retail demand for apparel products, the cost of raw materials, competitive conditions in the apparel and textile industries, the relative strength of the United States dollar as against other currencies, changes in United States trade regulations and the discovery of unknown conditions (such as with respect to environmental matters, and similar items). The Company does not undertake publicly to update or revise the forward-looking statements even if it becomes clear that any projected results will not be realized.

The Company, through its Delta Mills operating division, sells a broad range of finished apparel fabric primarily to branded apparel manufacturers and resellers. Delta Mills represents the only business segment of the Company.

Net sales from continuing operations in the second quarter of fiscal year 2001 were \$59.7 million as compared to \$58.1 million in the second quarter of the prior fiscal year, an increase of 2.7%. For the six months ended December 30, 2000, net sales were \$122.9 million, an increase of 6.5% from \$115.4 million in the first six months of the prior fiscal year. The increase in net sales was principally due to increased unit sales in both synthetic and cotton products.

Gross profit from continuing operations decreased to \$5.9 million and 9.9% of sales in the second quarter of fiscal year 2001. This compares to gross profit from continuing operations of \$6.3 million and 10.9% of sales in the prior year quarter. For the six months ended December 30, 2000, gross profit from continuing operations increased to \$15.2 million or 12.4% of sales as compared to \$12.4 million or 10.8% of sales in the same period of the prior fiscal year. The increase in gross profit margin was the result of increased sales and increased capacity utilization in the first quarter and the reduction in cost associated with downsizing of the synthetic product line that occurred during the first six months of fiscal year 2000. The increase in gross profit was somewhat offset by unabsorbed manufacturing cost associated with curtailment during the Christmas holiday season in order to adjust production and inventory in line with the Company's customer's deferments that occurred late in the second quarter. To a lesser extent, cost increases in power, fuel and some manufacturing materials contributed to the decline in gross profit during the second quarter.

Selling, general and administrative expenses (SG&A) were \$3.6 million and 6.0% of sales for the second quarter of fiscal year 2001 compared to SG&A of \$5.2 million and 8.9% of sales for the prior year quarter. For the six months ended December 30, 2000, SG&A expenses decreased to \$6.9 million or 5.6% as compared to SG&A of \$8.9 million or 7.7% of sales in the same period of the prior fiscal year. The decrease in SG&A was directly related to the reduction in corporate overhead.

Loss from continuing operations was \$144,000 for the second quarter of fiscal year 2001 compared to a loss of \$3.9 million in the prior year quarter. The improvement of \$3.8 million was the result of the increase in gross profit and the decrease in SG&A as described above coupled with a reduction in interest expense due to lower debt levels associated with the extinguishment of a portion of Delta Mills, Inc.'s senior note debt. On a per share basis, loss from continuing operations for the current quarter was \$.01 per share on 24,115,000 average shares outstanding as compared to a loss of \$.16 per share on 23,864,000 average shares outstanding in the same quarter of the prior fiscal year. For the six months ended December 30, 2000, income (loss) from continuing operations increased to a profit of \$2.2 million compared to a loss of \$5.4 million in the same period of the prior fiscal year. On a per share basis, income (loss) from continuing operations for the six months of the current fiscal year was \$.09 per share on 24,132,000 average shares outstanding as compared to a loss of \$.22 per share on 23,832,000 shares in the six months of the prior year.

Extraordinary gain, net of taxes of \$522,000, was \$946,000 in the current year quarter. The extraordinary gain occurred when the Company's Delta Mills, Inc. subsidiary purchased \$15.6 million face amount of its 9 5/8% Senior Notes for \$13.8 million. There was no extraordinary gain in the prior year quarter. For

the six months ended December 30, 2000, the extraordinary gain, net of taxes of \$874,000, was \$1,585,000. There was no extraordinary gain in the prior year period.

The effective income tax rate on income from continuing operations for the six months ended December 30, 2000 is 35.9%, compared to a negative 8.2% on a loss for the six months ended January 1, 2000. The negative tax rate for the six months ended January 1, 2000 was the result of various minimum state taxes and valuation allowance increases, while the tax rate for the current six months ended does not reflect any valuation allowance adjustments.

Net income was \$ 802,000 for the quarter ended December 30, 2000 compared to net loss of \$2.4 million in the prior year quarter. The prior year quarter net income included income of \$1.6 million from discontinued operations. There was no impact from discontinued operations for the current year quarter. See Note-D to the financial statements for a description of the discontinued operations for the prior year quarter. Net income was \$ 3.8 million for the six months ended December 30, 2000 compared to net loss of \$2.2 million in the same prior year period. The prior year period net income included income of \$3.1 million from discontinued operations. There was no impact from discontinued operations for the current year period.

The Company's order backlog at December 30, 2000 was \$55.8 million, a 16% decrease from the backlog of \$66.8 million at January 1, 2000. The decrease in order backlog was the result of the Company's customer's deferments that occurred late in the second quarter. The backlog improved as compared to prior year levels immediately following the end of the second quarter.

In the quarter ended December 30, 2000 the company purchased, in the open market, 407,200 shares of its common stock. In January of 2001, the company purchased an additional 119,100 shares of its common stock. These shares will be retired in the third quarter of fiscal year 2001.

The Company believes that cash flow generated by its operations will be sufficient to service its debt, to satisfy its day to day working capital requirements and to fund its planned capital expenditures.

In June 1998, The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities". This standard, as subsequently amended by SFAS Nos. 137 and 138, requires the recognition of all derivatives as either assets or liabilities in the statement of financial position and the measurement of those instruments at fair value. On July 2, 2000, the Company adopted the new standard. The Company's management has determined that its cotton buying contracts meet the criteria for exclusion under the normal purchases and normal sales exemption and are not considered derivatives; therefore, the Company had no financial statement impact from the adoption of the standard.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a part of the Company's business of converting fiber to finished fabric, the Company makes raw cotton purchase commitments and then fixes prices with cotton merchants who buy from producers and sell to textile manufacturers. Daily price fluctuations are minimal, yet long-term trends in price movement can result in unfavorable pricing of cotton. Before fixing prices, the Company looks at supply and demand fundamentals, recent price trends and other factors that affect cotton prices. The Company also reviews the backlog of orders from customers as well as the level of fixed price cotton commitments in the industry in general. As of December 30, 2000, a 10% decline in market price of the Company's fixed price contracts would have had a negative impact of approximately \$1.5 million on the value of the contracts.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On January 13, 2000, Marion Mills, LLC, a supplier to Delta Mills, Inc., a subsidiary of the Company, brought an action against Delta Mills, Inc. in North Carolina Superior Court in McDowell County, North Carolina. Delta Mills, Inc. removed the case to federal court in Western District of North Carolina, Asheville Division, where a trial was held and a jury rendered a verdict in favor of Delta Mills, Inc. on January 19, 2001. In that action, the plaintiff initially sought actual damages and consequential and incidental damages in excess of \$9.2 million, based on an alleged failure by Delta Mills, Inc. to pay in excess of \$1.8 million of invoice amounts. The consequential and incidental damages claim was based on the allegation that Delta Mills, Inc.'s failure to pay caused Marion Mills, LLC to shut down its business. Essentially all of the consequential and incidental damages claim was decided in favor of Delta Mills, Inc., by summary judgment in December 2000, and the remaining claims were decided in favor of Delta Mills, Inc., by jury verdict on January 19, 2001. The

plaintiff has filed a motion for a new trial. The Company and Delta Mills, Inc. believe that the plaintiff's motion for a new trial has no merit and are vigorously opposing that motion.

Item 2. Changes in Securities and Use of Proceeds*

Item 3. Defaults upon Senior Securities*

Item 4. Submission of Matters to a Vote of Security Holders

See Part II, Item 4 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2000, which was filed with the Commission on November 14, 2000, which Part II, Item 4 is incorporated herein by reference.

Item 5. Other Information*

Item 6. Exhibits and Reports on Form 8-K*

*Items 2,3,5 and 6 are not applicable

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Delta Woodside Industries, Inc.

(Registrant)

Date February 2, 2001

By: /s/ W. H. Hardman, Jr.

W.H. Hardman, Jr.
Chief Financial Officer

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