ANGELICA CORP /NEW/
Form 10-Q
December 08, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For The Quarter Ended	Commission File
October 25, 2003	Number 1-5674

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

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

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes X No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

The number of shares outstanding of Registrant's Common Stock, par value $1.00 per share, at December 1, 2003 was 8,846,332 shares.

ANGELICA CORPORATION AND SUBSIDIARIES

INDEX TO

OCTOBER 25, 2003 FORM 10-Q QUARTERLY REPORT

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

Third Quarter Ended		
October 25, 2003	October 26, 2002	Octob 20

CONTINUING OPERATIONS:			
Textile service revenues	$ 70,576	$ 68,108	$ 21
Net retail sales	21,422	24,525	6
Combined sales and revenues	91,998	92,633	27
Cost of textile services	(57,699)	(54,706)	(17
Cost of retail goods sold	(9,822)	(10,754)	(2
Combined cost of textile services and goods sold	(67,521)	(65,460)	(20
Gross profit	24,477	27,173	7
Selling, general and administrative expenses	(21,254)	(21,729)	(6
Restructuring charge reversal (Note 4)	-	-	
Other operating (expense) income, net	(194)	(69)	
Income from operations	3,029	5,375	
Interest expense	(117)	(345)	
Non-operating income (Note 5)	23	49	
Loss on early extinguishment of debt (Note 6)	-	-	
Income from continuing operations pretax	2,935	5,079	1
Income tax provision (Note 7)	(751)	(1,524)	(
Income from continuing operations	2,184	3,555	
DISCONTINUED OPERATIONS (NOTE 8):			
Loss on disposal of discontinued segment	-	(1,375)	
Income tax benefit of loss	-	481	
Loss from discontinued operations	-	(894)	
Net income (loss)	$ 2,184	$ 2,661	$
BASIC EARNINGS (LOSS) PER SHARE (NOTE 9):			
Income from continuing operations	$ 0.25	$ 0.41	$
Loss from discontinued operations	-	(0.10)	
Net income (loss)	$ 0.25	$ 0.31	$
DILUTED EARNINGS (LOSS) PER SHARE (NOTE 9):			
Income from continuing operations	$ 0.24	$ 0.40	$
Loss from discontinued operations	-	(0.10)	
Net income (loss)	$ 0.24	$ 0.30	$

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

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

	October 25, 2003
ASSETS	
Current Assets:	
Cash and short-term investments	$ 9,780
Receivables, less reserves of $1,098 and $724	35,077
Inventories	12,563
Linens in service	33,558
Prepaid expenses and other current assets	1,876
Deferred income taxes	6,530
Net current assets of discontinued segment (Note 8)	-
Total Current Assets	99,384
Property and Equipment	193,088
Less -- reserve for depreciation	105,216
Total Property and Equipment	87,872
Other:	
Goodwill (Note 10)	4,256
Other acquired assets (Note 10)	1,677
Cash surrender value of life insurance	28,758
Deferred income taxes	1,652
Miscellaneous	1,044
Total Other Assets	37,387
Total Assets	$224,643
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities:	
Current maturities of long-term debt	$ 184
Accounts payable	19,496
Accrued wages and other compensation	5,482
Other accrued liabilities	28,154
Total Current Liabilities	53,316
Long-Term Debt, less current maturities	10,353
Other Long-Term Obligations	15,470
Shareholders' Equity:	
Common Stock, $1 par value, authorized 20,000,000 shares, issued: 9,471,538	9,472
Capital surplus	4,481
Retained earnings	141,962
Accumulated other comprehensive loss	(503)
Unamortized restricted stock	(540)

Common Stock in treasury, at cost: 634,903 and 741,755	(9,368)
Total Shareholders' Equity	145,504
Total Liabilities and Shareholders' Equity	$224,643

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

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

	Nine Months E
	October 25, 2003
Cash Flows from Operating Activities:	
Income from continuing operations	$ 7,504
Non-cash items included in income from continuing operations:	
Depreciation	9,016
Amortization	776
Restructuring charge reversal (Note 4)	(310)
Cash surrender value of life insurance	(1,182)
Change in working capital components of continuing operations, net of businesses acquired/disposed of	7,007
Utilization of restructuring reserves	(325)
Other, net	(466)
Net cash provided by operating activities of continuing operations	22,020
Cash Flows from Investing Activities:	
Expenditures for property and equipment, net	(18,335)
Cost of businesses acquired	(72)
Disposals of businesses and property	-
Net cash used in investing activities of continuing operations	(18,407)
Cash Flows from Financing Activities:	
Long-term debt repayments on refinancing and revolving debt	(33,574)
Borrowings of long-term revolving debt	23,300
Dividends paid	(2,643)
Treasury stock reissued	741
Net cash used in financing activities of continuing operations	(12,176)

Net cash provided by discontinued operations (Note 8)	177
Net decrease in cash and short-term investments	(8,386)
Balance at beginning of year	18,166
Balance at end of period	$ 9,780
Supplemental cash flow information:	
Income taxes (refunded) paid	$ (3,868)
Interest paid	$ 281

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

THIRD QUARTER AND NINE MONTHS ENDED
OCTOBER 25, 2003 AND OCTOBER 26, 2002

Note 1. Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited, and these consolidated statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended January 25, 2003. It is Management's opinion that all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results during the interim periods have been included. All significant intercompany accounts and transactions have been eliminated. The results of operations and cash flows for the third quarter and nine months ended October 25, 2003 are not necessarily indicative of the results that will be achieved for the full year.

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

Note 2. Stock-Based Compensation

In December 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 amends SFAS No. 123 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 SFAS No. 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 Company has various stock option and stock bonus plans that provide for the granting of incentive stock options, non-qualified stock options, restricted stock and performance awards to certain employees and directors. As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," the Company applies Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for its plans. Accordingly, no compensation expense has been recognized for its stock-based compensation plans other than for restricted stock and performance-based awards. Total restricted stock and performance-based awards issued in the third quarter ended October 25, 2003 and October 26, 2002 amounted to $59,000 and $3,000, respectively; and $792,000 and $164,000 for the nine months ended October 25, 2003 and October 26, 2002, respectively. The amounts included in reported net income (loss) for restricted stock and performance-based awards in the third quarter ended October 25, 2003 and October 26, 2002 totaled $92,000 and $50,000, respectively; and $279,000 and $145,000 for the nine months ended October 25, 2003 and October 26, 2002, respectively.

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Had compensation expense for stock-based compensation plans been determined consistent with SFAS No. 123, the Company's net income (loss) and earnings (loss) per share for the third quarter and nine months ended October 25, 2003 and October 26, 2002 would approximate the following pro forma amounts (dollars in thousands, except per share data):

	Third Quarter Ended		Nine M
	October 25, 2003	October 26, 2002	October 25 2003
Net income (loss):			
As reported	$2,184	$2,661	$7,504
Deduct: Additional stock-based employee compensation expense determined under fair-value based method for all awards, net of related tax effects	(109)	(117)	(309)
Pro forma net income (loss)	$2,075	$2,544	$7,195
Basic earnings (loss) per share:			
As reported	$ 0.25	$ 0.31	$ 0.85
Pro forma	0.23	0.29	0.82
Diluted earnings (loss) per share:			
As reported	$ 0.24	$ 0.30	$ 0.84
Pro forma	0.23	0.29	0.80

The effect of the application of SFAS No. 123 in this disclosure is not necessarily indicative of the pro forma effect on net income in future periods.

Note 3. New Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 establishes accounting standards for recognition and measurement of a liability for an asset retirement obligation and the associated asset retirement cost. The Company adopted the provisions of SFAS No. 143 in the first quarter ended April 26, 2003, which did not have a material impact on the consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company adopted the provisions of SFAS No. 149 in the second quarter ended July 26, 2003, which did not have a material impact on the consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The Company adopted the provisions of SFAS No. 150 in the second quarter ended July 26, 2003, which did not have a material impact on the consolidated financial statements.

Note 4. Restructuring Activities

In fiscal 2003, the Company closed 25 of the 27 Life Uniform stores included in the plan of restructuring adopted in fiscal 2002. In the fourth quarter of fiscal 2003, Management decided not to close the remaining two stores and, consequently, reversed $269,000 of the restructuring charge related to these two stores. As of January 25, 2003, the balance in the restructuring reserve totaled $1,263,000. In the first nine months of fiscal 2004, a total of $334,000 was charged to the restructuring reserve, including $325,000 for lease termination costs paid. In addition, the Company reversed $310,000 of the original restructuring charge in the nine months ended October 25, 2003 due to favorable terminations of the store leases that have been settled to date. As of October 25, 2003, there was $619,000 remaining in the restructuring reserve that is expected to be utilized for termination costs of the remaining store leases.

Note 5. General American Distribution

In the third quarter of fiscal 2004, the Company received a pretax cash distribution of $1,857,000 in connection with the liquidation of the parent company of General American Life Insurance Company, an issuer of life insurance policies owned by the Company for funding supplemental pension and deferred compensation benefits. The distribution was recorded in non-operating income in the nine months ended October 25, 2003. The Company anticipates it will receive at some time in the future a second distribution of a nominal amount at the conclusion of the liquidation proceedings. These distributions do not affect the life insurance policies owned by the Company or their cash surrender value.

Note 6. Loss on Early Extinguishment of Debt

In the first quarter of fiscal 2004, the Company adopted SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Among other things, this statement rescinds the extraordinary treatment applied to gains and losses from extinguishment of debt pursuant to SFAS No. 4. During the second quarter of fiscal 2003, the Company incurred a pretax loss of $6,783,000 on early extinguishment of debt that was treated as an extraordinary item under SFAS No. 4. In accordance with SFAS No. 145, the loss is treated as an ordinary rather than extraordinary item, and accordingly, results for the first nine months of fiscal 2003 have been restated to reflect this change in accounting treatment.

Note 7. Income Taxes

Taxes on income from continuing operations have been provided for at an effective tax rate of 25.6 percent and 30.0 percent in the third quarter and first nine months of fiscal 2004, respectively, based upon the Company's estimated effective tax rate for the year. The effective tax rate on income from continuing operations of 27.5 percent in the first nine months of fiscal 2003 was due to the effect of the restatement of the extraordinary loss (see Note 6) which was tax effected at the incremental tax rate as a separate component of income from continuing operations in fiscal 2003 in accordance with SFAS No. 109.

Note 8. Discontinued Operations

In January 2002, the Company announced plans to dispose of its Manufacturing and Marketing business. Consequently, the Manufacturing and Marketing segment was accounted for as a discontinued operation as of January 26, 2002, and a loss on disposal was recorded to write down the net assets of the segment to their estimated net realizable value, including estimates of the costs of disposal and transition. The differences between these estimates as of October 26, 2002 compared with July 27, 2002 and January 26, 2002 resulted in the recording of an additional loss on disposal of $894,000 and

$6,302,000 net of tax in the third quarter and first nine months of fiscal 2003, respectively. In fiscal 2003, the sale and discontinuation of the Manufacturing and Marketing segment was completed and substantially all of the net assets of the segment, primarily accounts receivable and inventory, were disposed of. During the first nine months of fiscal 2004, the remaining net current assets of the discontinued segment were disposed of for amounts approximating their carrying values.

Note 9. Earnings (Loss) Per Share

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

The following table reconciles weighted average shares outstanding to amounts used to calculate basic and diluted earnings (loss) per share for the third quarter and nine months ended October 25, 2003 and October 26, 2002 (shares in thousands):

	Third Quarter Ended		Nine
	October 25, 2003	October 26, 2002	October 25 2003
Weighted average shares:			
Average shares outstanding	8,830	8,686	8,809
Effect of dilutive securities - option shares	158	184	140
Average shares outstanding, adjusted for dilutive effects	8,988	8,870	8,949

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Note 10. Goodwill and Other Intangible Assets

Under SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is no longer amortized. Instead, goodwill is tested for impairment using a fair-value based analysis at least annually as of a selected date, which is the end of the third quarter for the Company. Accordingly, the Company performed its annual impairment test as of October 25, 2003, which resulted in no indication of goodwill impairment.

As of October 25, 2003, the carrying amounts of goodwill allocated to the Textile Services and Life Uniform segments were $3,465,000 and $791,000, respectively, which were unchanged from the carrying values as of January 25, 2003. During the nine months ended October 25, 2003, there were no material acquisitions or dispositions of other acquired assets. Other acquired assets consisted of the following (dollars in thousands):

	October 25, 2003			Jan	
	Gross Carrying Amount	Accumulated Amortization	Other Acquired Assets, net	Gross Carrying Amount	Ac Am
Customer contracts	$5,995	$(4,726)	$1,269	$5,923	
Non-compete covenants	2,650	(2,242)	408	2,650	
Other acquired assets	$8,645	$(6,968)	$1,677	$8,573	

Other acquired assets are scheduled to be fully amortized by fiscal year 2009 with corresponding annual amortization expense estimated for each fiscal year as follows (dollars in thousands):

2004	$698
2005	557
2006	445
2007	366
2008	150
2009	2

Note 11. Derivative Instruments and Hedging Activities

The Company entered into an interest-rate swap agreement with one of its lenders effective September 9, 2002. The swap agreement fixes the variable portion of the interest rate (excluding a margin) at 3.58 percent on $10,000,000 of the outstanding debt under the revolving line of credit until termination on May 30, 2007. The Company has elected to apply cash flow hedge accounting for the interest-rate swap agreement in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." Accordingly, the derivative is recorded as an asset or liability at its fair value. The effective portion of changes in the fair value of the derivative, as measured quarterly, is reported in accumulated other comprehensive income, and the ineffective portion, if any, is reported in net income of the current period. The gain on the derivative included in accumulated other comprehensive loss in the third quarter and nine months ended October 25, 2003 amounted to $41,000 and $8,000, respectively, net of tax. The Company has recorded a long-term liability of $249,000 and $260,000 for the fair value of the derivative as of October 25, 2003 and January 25, 2003, respectively.

To minimize price risk due to market fluctuations, the Company has entered into fixed-price contracts for approximately 50 percent of its estimated natural gas purchase requirements in the next 12 months. Although these contracts are considered derivative instruments, they meet the normal purchases exclusion contained in SFAS No. 133, as amended by SFAS No. 138 and SFAS No. 149, and are therefore exempted from the related accounting requirements.

Note 12. Comprehensive Income (Loss)

Comprehensive income (loss), consisting of net income (loss) and changes in the fair value of derivatives used for interest rate risk management, net of taxes, totaled $2,225,000 and $2,582,000 for the third quarter ended October 25, 2003 and October 26, 2002, respectively; and $7,512,000 and $(1,674,000) for the nine months ended October 25, 2003 and October 26, 2002, respectively.

Note 13. Business Segment Information

Historically, the Company has operated principally in three industry segments: Textile Services, Manufacturing and Marketing and Life Uniform. Manufacturing and Marketing has been treated as a discontinued operation for all periods presented due to the discontinuation of this segment in January 2002. Textile Services provides textile rental, laundry and linen management services primarily to healthcare institutions. Life Uniform operates a nationwide chain of specialty retail uniform and shoe stores, together with a fully-integrated catalogue and e-commerce operation, selling to healthcare professionals. All of the Company's services of its continuing business segments are provided in the United States. Summary data about each of the Company's continuing business segments for the third quarter and nine months ended October 25, 2003 and October 26, 2002 appears below (dollars in thousands):

	Third Quarter Ended		Nine Months Ended	
	October 25, 2003	October 26, 2002	October 25, 2003	Octobe 200
Combined sales and revenues:				
Textile Services	$70,576	$68,108	$212,922	$203,
Life Uniform	21,422	24,525	61,839	71,
	$91,998	$92,633	$274,761	$274,
Income from operations:				
Textile Services	$ 4,729	$ 5,765	$ 15,842	$ 18,
Life Uniform	(6)	1,668	(725)	2,
Corporate expense	(1,694)	(2,058)	(5,825)	(5,
	$ 3,029	$ 5,375	$ 9,292	$ 15,
Depreciation and amortization:				
Textile Services	$ 2,456	$ 2,249	$ 7,241	$ 7,
Life Uniform	700	626	2,031	1,
Corporate	201	297	520	

$ 3,357	$ 3,172	$ 9,792	$ 10,
=========	=========	==========	======

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

THIRD QUARTER AND NINE MONTHS ENDED OCTOBER 25, 2003
COMPARED WITH
THIRD QUARTER AND NINE MONTHS ENDED OCTOBER 26, 2002

Analysis of Operations

Combined sales and revenues of $91,998,000 in the third quarter of fiscal 2004 declined 0.7 percent from the same quarter last year, as revenue gains in the Textile Services segment failed to offset continued sales declines in the Life Uniform segment. Operating income was lower in both segments in the current quarter compared with the prior-year quarter, reflecting the significantly lower sales volume at Life Uniform and cost pressures affecting Textile Services. Net income of $.25 per share ($.24 diluted) in the quarter was 19.4 percent below the $.31 per share ($.30 diluted), which included a loss from discontinued operations of $894,000 or $.10 per share, earned in the third quarter last year.

For the first nine months of this fiscal year, combined sales and revenues were essentially even with the comparable prior-year period, but operating income decreased in both Textile Services and Life Uniform. However, income from continuing operations benefited from a pretax distribution of $1,857,000 ($.15 per diluted share net of tax) in connection with the liquidation of the parent company of an issuer of life insurance policies owned by the Company (see Note 5). Including this distribution, net income was $.85 per share ($.84 diluted) in the first nine months this year.

As discussed in Note 6, the Company restated its results for the first nine months of fiscal 2003 to reflect the change from extraordinary to ordinary accounting treatment of the loss on early extinguishment of debt of $6,783,000 pretax ($.50 per diluted share net of tax). As a result of the restatement, the Company reported income from continuing operations of $.54 per share for the nine months ended October 26, 2002. Including the loss on disposal of the discontinued Manufacturing and Marketing segment of $6,302,000 in the first nine months of fiscal 2003 (see Note 8), the Company reported a per share net loss of $.18 for the nine-month period last year.

Textile Services

Textile Services segment revenues increased 3.6 percent in the third quarter and 4.7 percent in the first nine months compared with the same periods a year ago, benefiting from previous increases in net new business. Revenues in the first nine months last year included $854,000 from the Denver, CO plant, which was sold in May 2002 at a gain of $474,000. Despite the revenue increases, operating earnings of the segment decreased 18.0 percent and 13.4 percent in the third quarter and first nine months this year, respectively, as compared with last year's same periods. An increase of $981,000 in workers' compensation costs in this year's first nine months is expected to be offset by a favorable expense comparison in this year's fourth quarter due to a significant increase in the prior year's fourth quarter expense. Utilities and delivery fuel have combined to account for approximately $777,000 and $2,046,000 of cost increases in the third quarter and first nine months, respectively. Textile Services has been unable to completely offset these cost increases with higher prices charged to its customers due to competitive pricing pressures in the marketplace. Segment results were also negatively affected, as

expected, by an operating loss of $411,000 from the start up of the new Phoenix, AZ plant that opened during the third quarter this year.

Life Uniform

Life Uniform continued to experience significant sales declines in fiscal 2004. Sales decreased 12.7 percent in the third quarter compared with the prior year, and are 13.1 percent below last year for the first nine months. Same-store sales were down 7.7 percent and 7.8 percent in the third quarter and first nine months, respectively, accounting for approximately one-half of the sales declines. Sales also declined due to having 18 fewer stores in operation at the end of the third quarter this year compared with the same time last year, and the exiting of the low-margin hospitality line of business last year as part of the segment's fiscal 2002 restructuring plan. Catalogue and e-commerce sales decreased 13.1 percent in the third quarter, and were down 4.1 percent for the first nine months at $3,934,000. Segment gross margin of 54.1 percent in the third quarter was lower than the 56.2 percent of a year ago which included a gain of $412,000, or 1.7 percent gross margin, from the reversal of an intercompany profit deferral due to the sale of the Manufacturing and Marketing segment. Gross margin in the first nine months of fiscal 2004 was 53.8 percent as compared with 54.2 percent of a year ago, which included the reversal of the intercompany profit deferral of $783,000, or 1.1 percent gross margin. Primarily reflecting the lower sales volume, Life Uniform posted operating losses of $6,000 in the third quarter and $725,000 in the first nine months of fiscal 2004, compared with operating earnings of $1,668,000 and $2,891,000 in the third quarter and first nine months of fiscal 2003, respectively. Life's operating results in fiscal 2004 include a restructuring charge reversal of $310,000 in the first nine months (see Note 4).

On October 29, 2003, the Company announced that it has hired an investment banking firm to review strategic alternatives for the under-performing Life Uniform segment. At the same time, the Company announced the resignation of the segment President. The strategic review process is currently under way.

Operating Expenses and Other

Selling, general and administrative expenses decreased 2.2 percent in the third quarter to 23.1 percent of combined sales and revenues from

23.5 percent in the third quarter last year. For the first nine months, these expenses decreased 1.1 percent to 23.3 percent of combined sales and revenues from 23.6 percent a year ago. Decreases in Life Uniform store operating expenses due to fewer stores and lower incentive compensation accruals across the Company were mostly offset by increases in operating expenses for support and maintenance of Life's new information systems and corporate costs related to the Company's search for a new Chief Executive Officer. The $7,000 of net other operating income in the first nine months last year includes the aforementioned gain on the sale of Textile Services' Denver plant. The reductions in interest expense of $228,000 in the third quarter and $2,081,000 in the first nine months reflect the lower debt level and lower interest rates following the complete refinancing of the Company's debt in the second quarter last year. In addition, imputed interest cost of $209,000 has been capitalized in the nine months ended October 25, 2003 in connection with the capital spending for Textile Services' new plants in Phoenix, AZ and Columbia, SC.

Restructuring Activities

See Note 4 for a discussion of the Company's utilization of the Life Uniform restructuring

reserve in the first nine months of fiscal 2004. As of October 25, 2003, there was $619,000 of restructuring reserve remaining for lease termination costs that are being negotiated for the remaining Life Uniform stores closed in fiscal 2003. In the first nine months of fiscal 2004, the Company reversed into income from continuing operations $310,000 of the original restructuring charge recorded in fiscal 2002 due to terminations of store leases for amounts less than reserved and Management's revised estimate of the reserve required to terminate the remaining store leases. It is Management's opinion that the remaining restructuring reserve is adequate; however, there is a risk that additional costs could result from the Company's inability to terminate the leases of the remaining closed stores for the amounts reserved. Conversely, any remaining restructuring reserve not needed for its original intended purpose will be reversed into income in the period such determination is made.

Financial Condition, Liquidity and Capital Resources

In the nine months ended October 25, 2003, the Company used cash flow generated by operating activities of continuing operations to further reduce its debt, principally consisting of the amount outstanding under a bank line of credit, to 6.8 percent of total capitalization from 13.0 percent at the beginning of the year. The $10,274,000 reduction in total debt in the first nine months this year was achieved despite capital expenditures of $7,288,000 and $1,539,000 related to Textile Services' new plants in Phoenix, AZ and Columbia, SC, respectively. Net cash provided by discontinued operations reflects the proceeds from the liquidation of assets of the Manufacturing and Marketing segment which was substantially completed in fiscal 2003, net of the payment of certain sale-related liabilities. During the third quarter this year, the Company received the $1,857,000 General American distribution referred to above and a Federal income tax refund of $4,054,000 due mainly to the loss on the sale of the Manufacturing and Marketing segment recorded in prior fiscal years.

As of October 25, 2003, the Company had working capital of $46,068,000 and a current ratio of 1.9 to 1, both lower than $61,297,000 and 2.2 to 1 as of January 25, 2003 due primarily to the reduction in debt and higher capital expenditures in the first nine months ended October 25, 2003. As of October 25, 2003, the Company was in compliance with all financial covenants contained in its debt agreements.

Management believes that the Company's financial condition is such that internal and external resources are sufficient and available to satisfy the Company's requirements for debt service, capital expenditures, acquisitions, dividends and working capital over the course of the next 12 months.

Forward-Looking Statements

Any forward-looking statements made in this document reflect the Company's current views with respect to future events and financial performance and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties that may cause actual results to differ materially from those set forth in these statements. These potential risks and uncertainties include, but are not limited to, competitive and general economic conditions, the ability to retain current customers and to add new customers in competitive market environments, competitive pricing in the marketplace, delays in the shipment of orders, availability of labor at appropriate rates, availability and cost of energy and water supplies, the cost of workers' compensation and healthcare benefits, the ability to attract and retain key personnel, actual charges to the restructuring reserve significantly

different from estimated charges, unusual or unexpected cash needs for operations or capital transactions, the effectiveness of certain expense reduction initiatives, the ability to obtain financing in required amounts and at appropriate rates, the ability to identify, negotiate, fund and integrate acquisitions, and other factors which may be identified in the Company's filings with the Securities and Exchange Commission.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to commodity price risk related to the use of natural gas in laundry plants of the Textile Services segment. The total cost of natural gas in the third quarter and nine months ended October 25, 2003 was $2,401,000 and $7,624,000, respectively. To reduce the uncertainty of fluctuating energy prices, the Company has entered into fixed-price contracts for approximately 50 percent of the segment's estimated natural gas purchase requirements in the next 12 months. A hypothetical 10 percent increase in the cost of natural gas not covered by these contracts would result in a reduction of approximately $508,000 in annual pretax earnings.

The Company is also exposed to commodity price risk resulting from the consumption of gasoline and diesel fuel for delivery trucks in the Textile Services segment. The total cost of truck fuel in the third quarter and nine months ended October 25, 2003 was $965,000 and $3,117,000, respectively. A hypothetical 10 percent increase in the cost of delivery fuel would result in a decrease of approximately $416,000 in annual pretax earnings.

The Company's exposure to interest rate risk relates primarily to its variable-rate revolving debt agreement entered into in the second quarter of fiscal 2003. As of October 25, 2003, there was $10,000,000 of outstanding debt under the credit facility, all of which bears interest at a fixed rate of 3.58 percent (plus a margin) under an interest-rate swap agreement entered into by the Company with one of its lenders effective September 9, 2002. Amounts borrowed under the credit facility in excess of the $10,000,000 covered by the interest-rate swap agreement bear interest at a rate equal to either (i) LIBOR plus a margin, or (ii) a Base Rate, defined as the higher of (a) the Federal Funds Rate plus .50 percent and (b) the Prime Rate. The margin is based on the Company's ratio of "Funded Debt" to "EBITDA," as each is defined in the Loan Agreement. As of October 25, 2003, the margin was 1.0 percent.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains a system of internal controls and procedures designed to provide reasonable assurance as to the reliability of the unaudited consolidated financial statements and other disclosures included in this report. The Company's Board of Directors, operating through its Audit Committee which is composed entirely of independent Directors, provides oversight to the financial reporting process.

As of the end of the period covered by this report, the Company's Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in ensuring that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities in a timely manner, particularly during the period for which this quarterly report is being prepared. The Chief Executive Officer and Chief Financial Officer also concluded based upon their evaluation that the Company's disclosure controls and procedures are effective in ensuring that the information required to be disclosed by the Company in the 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 the Securities and Exchange Commission's rules and forms.

There have been no significant changes in internal controls over financial reporting or in other factors that could significantly affect internal controls over financial reporting subsequent to the date of this most recent evaluation, nor were any corrective actions required with regard to significant deficiencies and material weaknesses.

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PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) See Exhibit Index on page 19.

(b) REPORTS ON FORM 8-K - On August 19, 2003, the Company filed and/or furnished a report on Form 8-K under Items 7 and 12 containing a press release announcing its earnings for the second quarter ended July 26, 2003.

A report on Form 8-K was filed and/or furnished on August 27, 2003 under Items 7 and 9 which included the Quarterly Report to Shareholders for the second quarter ended July 26, 2003 as an exhibit, pursuant to Regulation FD.

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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.

Angelica Corporation
(Registrant)

Date: December 8, 2003

/s/ T. M. Armstrong
T. M. Armstrong
Senior Vice President -
Finance and Administration
Chief Financial Officer
(Principal Financial Officer)

/s/ James W. Shaffer
James W. Shaffer

Vice President and Treasurer
(Principal Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description