

ANGELICA CORP /NEW/
Form 8-K/A
June 06, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K
(AMENDMENT NO. 1)

CURRENT REPORT

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

Date of Report (date of earliest event reported): MARCH 21, 2005

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

MISSOURI (State or other jurisdiction of incorporation)	1-5674 (Commission File Number)	43-0905260 (I.R.S. Employer Identification No.)
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424 SOUTH WOODS MILL ROAD CHESTERFIELD, MISSOURI (Address of principal executive offices)	63017-3406 (Zip Code)
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(314) 854-3800
(Company's telephone number, including area code)

NOT APPLICABLE
(Former name or former address if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the Company under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

As previously reported on the Current Report on Form 8-K filed on March 24, 2005, Angelica Corporation, a Missouri corporation, announced that

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Angelica Textile Services, Inc., a New York corporation and wholly owned subsidiary of the Company, consummated a stock purchase as of March 21, 2005, whereby Angelica Textile Services acquired all of the issued and outstanding common stock and warrants of Royal Institutional Services, Inc., a Massachusetts corporation and The Surgi-Pack Corporation, a Massachusetts corporation for \$45 million payable in cash subject to escrow of a portion of the purchase price at closing pending release of funds pursuant to the terms of the escrow agreement.

This Form 8-K/A amends the Current Report on Form 8-K filed on March 24, 2005 to include Item 9.01(a) - Financial Statements of Businesses

Acquired and Item 9.01(b) - Pro Forma Financial Information. As indicated

in the footnotes to the pro forma financial information, certain of the assumptions in the pro forma financial information included in this Form 8-K/A are based, in part, on the preliminary purchase price allocation recorded for this acquisition, which is subject to change once all required information is obtained.

(a) Financial statements of businesses acquired.

The following combined financial statements of Royal Institutional Services, Inc. and The Surgi-Pack Corporation are attached hereto and are incorporated in their entirety by reference into this Item 9.01(a):

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Report of Independent Auditors	F-1
Combined Balance Sheet - December 31, 2004	F-2
Combined Statement of Income and Retained Earnings - Year Ended December 31, 2004	F-4
Combined Statement of Cash Flows - Year Ended December 31, 2004	F-5
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(b) Pro forma financial information.

The following pro forma financial information is attached hereto and is incorporated in its entirety by reference into this Item 9.01(b):

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Pro Forma Consolidated Balance Sheet - January 29, 2005	F-10
Pro Forma Consolidated Statement of Income - Year Ended January 29, 2005	F-11

(c) Exhibits. See Exhibit Index.

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

Dated: June 6, 2005

ANGELICA CORPORATION

By: /s/ James W. Shaffer

James W. Shaffer
Vice President and
Chief Financial Officer

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[Bannon & Company, P.C. logo]

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REPORT OF INDEPENDENT AUDITORS

To the Stockholders
Royal Institutional Services, Inc. and Affiliate

We have audited the accompanying combined balance sheet of Royal Institutional Services, Inc. (an S corporation) and affiliate as of December 31, 2004 and the related combined statements of income and retained earnings, and cash flows for the year then ended. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined 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, the combined financial statements referred to above present fairly, in all material respects, the financial position of Royal Institutional Services, Inc. and affiliate as of December 31, 2004, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ BANNON & COMPANY, P.C.

Worcester, Massachusetts
February 8, 2005

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ROYAL INSTITUTIONAL SERVICES, INC. AND AFFILIATE
 COMBINED BALANCE SHEET
 DECEMBER 31, 2004

ASSETS

CURRENT ASSETS		
Cash	\$ 420,323	
Accounts receivable	3,895,659	
Linens in service	11,753,097	
Other current assets	289,063	

TOTAL CURRENT ASSETS		\$16,358,142
PROPERTY AND EQUIPMENT		
Land	-	
Leasehold improvements	1,195,922	
Machinery and equipment	9,110,828	
Office and computer equipment	767,160	
Motor vehicles	97,819	

TOTAL	11,171,729	
Less accumulated depreciation	(5,091,993)	

NET PROPERTY AND EQUIPMENT		6,079,736

OTHER ASSETS		
Deposits		89,405

TOTAL ASSETS		\$22,527,283
		=====

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ROYAL INSTITUTIONAL SERVICES, INC. AND AFFILIATE
 COMBINED BALANCE SHEET
 DECEMBER 31, 2004

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Note payable - revolving line of credit	\$ 5,325,091	
Note payable - short-term	-	
Current portion of long-term debt	1,644,088	
Current portion of subordinated debt	666,667	
Accounts payable and accrued liabilities	5,149,646	

TOTAL CURRENT LIABILITIES		\$12,785,492

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LONG-TERM DEBT		5,617,633
SUBORDINATED DEBT		1,000,000
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock - no par value; authorized 400,000 shares, issued and outstanding 18,000 shares	2,000	
Retained earnings (deficit)	3,122,158	

TOTAL STOCKHOLDERS' EQUITY		3,124,158

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		\$22,527,283
		=====

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ROYAL INSTITUTIONAL SERVICES, INC. AND AFFILIATE
COMBINED STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2004

REVENUES		\$46,416,693

OPERATING EXPENSES		
Production	\$36,399,503	
General and administrative	4,976,301	
Interest	750,918	
Goodwill impairment charge	70,159	

TOTAL OPERATING EXPENSES		42,196,881

INCOME BEFORE PROVISION FOR STATE INCOME TAXES		4,219,812
PROVISION FOR STATE INCOME TAXES		170,000

NET INCOME		4,049,812
RETAINED EARNINGS, BEGINNING OF YEAR		2,682,484
TRANSFER OF ASSETS IN HOSPITALITY RESTRUCTURING		(760,974)
S CORPORATION DISTRIBUTIONS		(2,849,164)

RETAINED EARNINGS, END OF YEAR		\$ 3,122,158
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ROYAL INSTITUTIONAL SERVICES, INC. AND AFFILIATE
 COMBINED STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	\$ 4,049,812
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	1,047,958
Goodwill impairment charge	70,159
Changes in assets and liabilities:	
Accounts receivable	(169,859)
Linens in service	(987,489)
Other current assets	(65,137)
Other assets	(89,406)
Accounts payable and accrued liabilities	442,973

NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 4,299,011
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of property and equipment	(4,094,774)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from (repayment of) revolving line of credit, net	569,818
Proceeds from short-term debt	-
Repayment of short-term debt	(665,000)
Proceeds from long-term debt	4,798,346
Repayment of long-term debt	(1,038,540)
Repayment of subordinated debt	(846,667)
S corporation distributions	(2,849,164)

NET CASH USED IN (PROVIDED BY) FINANCING ACTIVITIES	(31,207)

NET INCREASE IN CASH	173,030
CASH, BEGINNING OF YEAR	247,293

CASH, END OF YEAR	\$ 420,323
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SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

CASH PAID DURING THE YEAR FOR:

Interest	\$ 748,441
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Income taxes	\$ 291,300
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ROYAL INSTITUTIONAL SERVICES, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2004

(1) BUSINESS RESTRUCTURING

On December 31, 2004 the stockholders of Royal Institutional Services, Inc. and its affiliate, Surgi-Pack Corporation, (the Company) consummated a restructuring of the business of the Company involving the contribution by all of the stockholders of the Company (the Stockholders) of all of the outstanding shares of common stock of the Company to a newly formed corporation, Royal Hospitality Services, Inc. (RHS) in exchange for shares of common stock of RHS such that after the contribution, the Stockholders held all of the outstanding shares of RHS, and Royal Institutional Services, Inc. and Surgi-Pack Corporation became wholly owned subsidiaries of RHS. In addition, the restructuring involved the transfer of certain assets to RHS relating to the business of providing laundry services to the hospitality industry. The net book value of the assets transferred totaled \$1,754,908. The liabilities transferred to RHS totaled \$993,934. The accompanying balance sheet does not include the transferred assets, liabilities, or stockholders' equity of RHS as of December 31, 2004.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The combined financial statements include the accounts of Royal Institutional Services, Inc. and its affiliate, Surgi-Pack Corporation (the Company). All significant intercompany transactions and balances have been eliminated. As discussed in Note (1) the financial statements do not include the accounts of Royal Hospitality Services, Inc.

(b) Business Activity

The Company provides linen rental and commercial laundry services primarily to hospitals, other health care institutions, and hotels.

(c) Concentration of Credit Risk

The Company extends credit to its customers on a regular basis and exposure for credit losses is regularly monitored by management. The Company has historically incurred minimal credit losses with respect to its trade receivables.

(d) Linens In Service

Linens in service represent linens owned by the Company and provided to customers as part of its linen rental

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service. Linens in service are stated at depreciated cost, not in excess of market. Depreciation is computed on a straight line basis over an estimated useful life of three years and is reflected in the income statement as linen replacement cost.

(e) Depreciation

Property and equipment are recorded at cost and are depreciated over their estimated useful lives. Depreciation has been computed using the straight-line method for financial reporting purposes. Accelerated methods are utilized for income tax purposes. Estimated useful lives are as follows:

	Years -----
Leasehold improvements	10 - 20
Machinery and equipment	5 - 10
Office and computer equipment	5
Motor vehicles	5

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ROYAL INSTITUTIONAL SERVICES, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2004

(f) Income Taxes

Royal Institutional Services, Inc. and Surgi-Pack Corporation, with the consent of their shareholders, have elected to be S corporations under the Internal Revenue Code. In lieu of corporation income taxes, the shareholders of an S corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for federal income taxes has been included in the financial statements.

The Commonwealth of Massachusetts assesses a corporate-level tax at a rate of four and one-half percent of state taxable income on S corporations with gross revenues in excess of nine million dollars. During fiscal year ended December 31, 2004 the Company's revenues exceeded this threshold resulting in a corporate income tax liability of approximately \$170,000.

(g) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

(3) GOODWILL IMPAIRMENT CHARGE

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During 2004 the Company recorded a non-cash goodwill impairment charge of \$70,159 based on management's evaluation of its fair market value.

(4) REVOLVING CREDIT FACILITY AND SHORT-TERM NOTE PAYABLE

The Company has a revolving credit facility with a commercial bank providing for a maximum borrowing of \$7,500,000 subject to the availability of collateral and maturing June 30, 2005. The debt is cross-collateralized and cross-defaulted with the Company's other bank debt (Note (5)) and borrowings are secured by a first position lien on all Company assets and the personal guarantees of the stockholders. Interest is payable monthly at prime plus 1/2%. The agreement contains financial covenants requiring compliance with certain ratios with respect to financial leverage, cash flow, and maximum unfinanced capital expenditures. The Company was not in compliance with certain of these covenants as of December 31, 2004 and had received a waiver from the bank.

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ROYAL INSTITUTIONAL SERVICES, INC. AND AFFILIATE NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2004

(5) LONG-TERM DEBT

Long-term debt consists of the following at December 31, 2004:

SENIOR NOTES PAYABLE:

Note payable, bank, secured by all Company assets and personally guaranteed by the stockholders, payable in monthly principal installments of \$100,000 plus interest at prime.	\$ 4,400,000
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Capital lease payable re: the acquisition of equipment with an aggregate cost up to \$3,046,000. Interest only payments required at prime until total amount advanced. Thereafter payable in 60 monthly installments of \$59,242 including interest at 6.25%. The obligation is secured by equipment and is guaranteed by the stockholders and the Company's affiliate, Gold Street Realty, LLC.	2,861,721
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TOTAL SENIOR NOTES PAYABLE	7,261,721
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SUBORDINATED DEBT:

Note payable, Massachusetts Capital Resource Company (MCRC), 11%, unsecured, requiring quarterly payments of interest only through September 2004 with quarterly payments of \$166,667 plus interest beginning December 2004 through March 2006 with a final payment of \$833,333 due June 2006. The agreement contains certain restrictive covenants and

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financial ratio requirements for which the Company had received a waiver at December 31, 2004.	1,666,667 -----
TOTAL	8,928,388
Less current portion	(2,310,755) -----
LONG-TERM DEBT	\$ 6,617,633 =====

Approximate aggregate maturities of long-term debt are as follows:

2005	\$2,310,755
2006	2,764,272
2007	1,800,567
2008	1,439,197
2009	613,597
Thereafter	-

(6) STOCK WARRANTS

In connection with the long-term financing obtained from MCRC as described in Note (5), the Company issued stock purchase warrants to MCRC for the purchase of 1,000 shares of the Company's common stock for \$55.55 per share and 700 shares for \$61.69 per share prior to the expiration date of June 30, 2006. The warrant agreement contains put and call options which provide for the payment to the warrant holders of the excess of the fair market value of one (1) share of common stock over the exercise price multiplied by the number of shares of common stock for which the warrants may then be exercised.

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ROYAL INSTITUTIONAL SERVICES, INC. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2004

(7) COMMITMENTS, CONTINGENCIES AND RELATED PARTY TRANSACTIONS

- (a) The Company leases certain real estate, machinery and equipment, and motor vehicles under operating lease agreements. Certain of the leases contain purchase options based upon estimated fair market values at the end of the lease terms. Aggregate rental expense under operating leases amounted to \$1,749,048 in 2004.

Approximate future minimum lease payments for the succeeding five years under noncancellable operating leases as of December 31, 2004 are as follows:

2005	\$1,777,000
2006	1,665,000
2007	1,559,000
2008	1,581,000
2009	1,626,000

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- (b) The Company is subject to legal and administrative proceedings and claims of various types which arise in the ordinary course of its business. However, management believes that any such claims will not materially affect the financial position or operating results of the Company.
- (c) In 2004 the Company initiated a partially self-insured health insurance plan for the benefit of its employees. The plan has a stop-loss feature limiting the Company's potential liability to \$25,000 annually per individual with an annual limit of \$1,035,000 in the aggregate as of December 31, 2004. The Company's policy is to accrue amounts for claims incurred and presented as of the balance sheet date as well as an estimated amount for claims incurred but not yet presented for payment. The total amount accrued as of December 31, 2004 was approximately \$65,000. Changes in assumptions for such matters as medical costs and changes in actual experience could cause these estimates to change in the near term.
- (e) The Company's Worcester, MA plant is leased from Gold Street Realty, LLC, a limited liability company comprised of the stockholders of the Company. The Company has guaranteed the mortgage on the property which obligates the Company to make payment in the event of a default by Gold Street Realty, LLC. As of December 31, 2004 the Company's maximum exposure to loss as a result of the guaranty was approximately \$2,527,000 representing the outstanding balance on the mortgage. Management does not anticipate any material adverse effect on the Company's financial condition as a result of this contingent liability.

The Company has also entered into a 15 year lease with Gold Street Realty, LLC for the Worcester, MA facility. Total lease payments totaled \$360,000 in 2004. The lease is classified as an operating lease and the agreement includes a 5% annual escalation clause.

(8) PROFIT SHARING PLAN

The Company has a qualified 401(k) profit sharing plan covering substantially all of its full-time employees not covered by a collective bargaining agreement. The plan also provides for annual contributions at the discretion of the board of directors and participation in the plan is subject to certain eligibility requirements. Employer contributions to the plan totaled \$86,608 in 2004.

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PRO FORMA
 CONSOLIDATED BALANCE SHEET
 JANUARY 29, 2005

For Year Ended (Dollars in thousands)	ANGELICA HISTORICAL 1/29/2005	ROYAL HISTORICAL 12/31/2004	ROYAL PRO F ADJUST

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ASSETS

Current Assets:

Cash and short-term investments	\$ 926	\$ 420	
Receivables, less reserves of \$510 for Angelica	44,454	3,896	
Linens in service	38,846	11,753	(7,
Prepaid expenses and other current assets	3,817	289	
Deferred income taxes	5,386	-	

Total Current Assets 93,429 16,358 (7,

Property and Equipment:

Land	7,766	-	
Buildings and leasehold improvements	58,353	1,196	(
Machinery and equipment	126,886	9,976	(7,
Capitalized leased equipment	830	-	

193,835 11,172 (7,
Less - accumulated depreciation 92,170 5,092 (5,

Total Property and Equipment 101,665 6,080 (2,

Other:

Goodwill	31,272	-	19,
Other acquired assets	24,860	-	19,
Cash surrender value of life insurance	30,942	-	
Deferred income taxes	2,040	-	
Miscellaneous	4,745	89	

Total Other Assets 93,859 89 38,

Total Assets \$288,953 \$22,527 \$28,

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:

Current maturities of long-term debt	\$ 419	\$ 2,311	\$ (2,
Notes payable	-	5,325	(5,
Accounts payable	16,865	5,150	
Accrued wages and other compensation	5,145		
Deferred compensation and pension liabilities	4,226		
Other accrued liabilities	29,063		

Total Current Liabilities 55,718 12,785 (7,

Long-Term Debt, less current maturities 67,811 6,618 39,

Other:

Deferred compensation and pension liabilities	13,594	-	
Other long-term liabilities	474	-	

Total Other Liabilities 14,068 -

Shareholders' Equity:

Common Stock, \$1 par value, authorized			
20,000,000 shares, issued:			
9,471,538 shares	9,472	2	
Capital surplus	5,336		
Retained earnings	144,621	3,122	(3,
Accumulated other comprehensive loss	(1,337)		
Unamortized restricted stock	(1,007)		
Common Stock in treasury, at cost: 405,304			

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shares	(5,729)		

Total Shareholders' Equity	151,356	3,124	(3,

Total Liabilities and Shareholders' Equity	\$288,953	\$22,527	\$28,
=====			