

Edgar Filing: GIANT GROUP LTD - Form 10-Q

GIANT GROUP LTD
Form 10-Q
August 14, 2001

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 second quarterly period ended June 30, 2001

GIANT GROUP, LTD.

9440 Santa Monica Blvd. Suite 407, Beverly Hills, California 90210

Registrant's telephone number: (310) 273-5678

Commission File Number: 1-4323

I.R.S. Employer Identification Number: 23-0622690

State of Incorporation: Delaware

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.

On August 10, 2001 the latest practicable date, there were 2,690,854 shares of Common Stock outstanding.

GIANT GROUP, LTD.

INDEX

PART I. FINANCIAL INFORMATION

	Page No.

Item 1. Financial Statements	
Consolidated Statements of Operations - Three and Six-Month Periods Ended June 30, 2001 and 2000	3
Consolidated Balance Sheets - June 30, 2001 and December 31, 2000	4

Edgar Filing: GIANT GROUP LTD - Form 10-Q

Consolidated Statements of Cash Flows - Six-Month Periods Ended June 30, 2001 and 2000	5
Notes to Consolidated Financial Statements	6-8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	9-10

PART II. OTHER INFORMATION

Item 1. Legal Proceedings	11
Item 6. Exhibits and Reports on Form 8-K	11
(a) Exhibits	
(b) Reports on Form 8-K	
Signature	11

2

ITEM 1. FINANCIAL STATEMENTS

GIANT GROUP, LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
for the three and six-month periods ended June 30, 2000 and 2001
(Unaudited)
(Dollars in thousands, except per share amounts)

	Three-months ended June 30,	
	2001	2000
Costs and expenses:		
General and administrative	\$ 385	\$ 546
Tender offer (note 4)	88	-
Depreciation	8	9
	481	555
Other income:		
Investment and other income	57	49
Gain (loss) on sale of marketable securities	(2)	6
	55	55
Loss from continuing operations	(426)	(500)
Loss from discontinued operations	-	(5,864)
Net loss	\$ (426)	\$ (6,364)

Edgar Filing: GIANT GROUP LTD - Form 10-Q

Basic and diluted loss per common share:		
Loss from continuing operations	\$ (0.14)	\$ (0.12)
Loss from discontinued operations	-	(1.47)
	-----	-----
Net loss	\$ (0.14)	\$ (1.59)
	-----	-----
Weighted average shares - basic and diluted	2,998,000	3,990,000
	-----	-----

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

3

GIANT GROUP, LTD. CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	June 30 2001 -----
ASSETS	(Unaudited)
Current assets:	
Cash and cash equivalents	\$ 3
Marketable securities	6,3
Income tax receivable	
Prepaid expenses and other assets	2

Total current assets	6,8
Property and equipment, net	1
Other assets	

Total assets	\$ 6,9

LIABILITIES	
Current liabilities:	
Margin loan	2
Accounts payable	
Accrued expenses	4
Income taxes payable	

Total current liabilities	7
Deferred income taxes	

Total liabilities	7

COMMITMENTS AND CONTINGENCIES (Note 6)	
STOCKHOLDERS' EQUITY	
Preferred stock, \$.01 par value; authorized 2,000,000 shares, none issued	
Class A common stock, \$.01 par value; authorized 5,000,000 shares, none issued	
Common stock, \$.01 par value; authorized 12,500,000 shares; 6,782,000 and 7,266,000 shares issued at 2001 and 2000	
Capital in excess of par value	35,2

Edgar Filing: GIANT GROUP LTD - Form 10-Q

Accumulated other comprehensive income (expense) (Note 3)	1,9
Accumulated deficit	(2,1)

Less:	35,1
4,091,000 & 4,111,000 shares of Common stock in treasury, at cost at 2001 & 2000	(28,8)

Total stockholders' equity	6,2

Total liabilities and stockholders' equity	\$ 6,9
	=====

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

4

GIANT GROUP, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOW
for the six-month ended June 30, 2000 and 2001
(Unaudited)
(Dollars in thousands, except per share amounts)

	Six-months ended	
	June 30,	
	2001	2000
	-----	-----
Operating Activities:		
Net loss	\$ (824)	\$ (6,7)
Less: Loss from discontinued operations	-	5,7
	-----	-----
Loss from continuing operations	(824)	(1,0)
Adjustments to reconcile loss from continuing operations to net cash used by operations:		
Depreciation	17	
(Gain) loss on the sale of marketable securities	2	(
Executive deferred compensation adjustment	-	4
Changes in assets and liabilities:		
Decrease in prepaid expenses and other current assets	334	3
Decrease in accounts payable and accrued expenses	(147)	(5)
Decrease in income tax payable	(5)	
	-----	-----
Net cash used by continuing operations	(623)	(8
Net cash provided by discontinued operations	-	3
	-----	-----
Net cash used by operations	(623)	(4
	-----	-----
Investing Activities:		
Sales of marketable securities	252	6,3
Purchases of marketable securities	(745)	(1,9
Proceeds from short-term margin loan	246	
Purchases of property and equipment	-	(4
	-----	-----
Net cash (used) provided by investing activities	(247)	4,0
	-----	-----
Financing Activities:		

Edgar Filing: GIANT GROUP LTD - Form 10-Q

Repurchase of common stock - tender offer	(241)	
	-----	-----
Net cash used by continuing financing activities	(241)	
	-----	-----
Collateral with Factor	-	(3,0
Payment of note-receivable - related party	-	(1
Payment of capital lease obligations	-	(
	-----	-----
Net cash used by discontinued financing activities	-	(3,1
	-----	-----
Net cash used by financing activities	(241)	(3,1
	-----	-----
(Decrease) increase in cash and cash equivalents	(1,111)	3
Cash and cash equivalents:		
Beginning of period	1,428	1,2
	-----	-----
End of period	\$ 317	\$ 1,6
	=====	=====
Supplemental disclosure for continuing operations of cash paid for:		
Income taxes	\$ 3	\$
Interest	-	
Supplemental disclosure for discontinued operations of cash paid for:		
Income taxes	\$ -	\$
Interest	-	7

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

5

GIANT GROUP, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information included in this document (as well as information included in oral statements or other written statements made or to be made by the Company) contains statements that are forward-looking, such as statements relating to plans for future activities. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ from those expressed in any forward-looking statements made by or on behalf of the Company. These risks and uncertainties include those relating to the availability of adequate working capital, the development and implementation of the Company's business plan and changes in federal or state tax laws and of the administration of such laws.

1. Basis of Presentation

Edgar Filing: GIANT GROUP LTD - Form 10-Q

The accompanying unaudited consolidated financial statements have been prepared in accordance with Form 10-Q instructions and in the opinion of management contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of June 30, 2001 and the results of operations and cash flows for the six-month periods ended June 30, 2001 and 2000. These results have been determined on the basis of generally accepted accounting principles and practices applied consistently with those used in the preparation of the Company's 2000 Annual Report on Form 10-K. Certain 2000 amounts have been reclassified to conform to the 2001 presentation. Operating results for the six-month period ended June 30, 2001 are not necessarily indicative of the results that may be expected for the full year. It is suggested that the accompanying unaudited consolidated financial statements be read in conjunction with the financial statements and notes in the Company's 2000 Annual Report on Form 10-K.

2. Discontinued Women and Children's Apparel Operations

On September 25, 2000, the Company's Board of Directors approved a plan for the disposition of Periscope's apparel operations. On October 31, 2000, Periscope executed and delivered a letter delivering peaceful possession of its assets, including accounting books and records to Century Business Credit Corporation ("Century"). Pursuant to the letter, all receivables, inventory, fixed assets and other assets of Periscope were transferred to Century. At the time of the transfer, Periscope was in default under its Factoring Agreement. On November 30, 2000, Periscope filed a Voluntary Petition under Chapter 7 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. All other accounting books and records were turned over to the bankruptcy trustee.

The Company has reclassified its apparel operations for the six months ended June 30, 2000 as discontinued operations on the Consolidated Statement of Operations.

6

GIANT GROUP, LTD.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)
 (Dollars in thousands, except per share amounts)

3. Comprehensive Income (Expense)

The changes in components of comprehensive income (expense), net of provision (benefit) for income taxes, for the six months ended June 30, 2001 and 2000 are as follows:

	2001			
	Pre-Tax Amount	Tax Provision	Net Amount	Pre-Tax Amount
Other comprehensive income (expense):				
Unrealized gains on marketable securities, net	\$2,084	\$ -	\$2,084	\$807

Edgar Filing: GIANT GROUP LTD - Form 10-Q

Net loss	(824)

Comprehensive income (expense)	\$1,260
	=====

4. Tender Offer

On April 20, 2001, the Company announced its intention to purchase any and all outstanding shares of its Common Stock and associated Preferred Stock Purchase Rights for \$.50 net per share. The Company intended to deregister its shares under the Securities Exchange Act of 1934 and become a private company if the number of stockholders number less than 300 after the offer to purchase is completed.

The expiration date of the tender offer, extended twice by the Company, was May 29, 2001. The Company purchased four hundred eighty-three thousand nine hundred eighteen (483,918) shares and remains a public company. The Company incurred one-time costs related to the tender offer of \$88.

5. Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board finalized FASB Statements No. 141, Business Combinations (SFAS 141), and No. 142, Goodwill and Other Intangible Assets (SFAS 142). SFAS 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS 141 also requires that the Company recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. It also requires, upon adoption of SFAS 142, that the Company reclassify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS 141.

SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires that the Company identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS 142. SFAS 142 is required to be applied in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized. SFAS 142 requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company is also required to reassess the useful lives of other intangible assets within the first interim quarter after adoption of SFAS 142.

GIANT GROUP, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in thousands, except per share amounts)

6. Commitments and Contingencies

Edgar Filing: GIANT GROUP LTD - Form 10-Q

The Company is involved in various claims and legal proceedings which have been described in the Company's 2000 Annual Report on Form 10-K. There have been no material changes to these claims and legal proceedings during the six-months ended June 30, 2001, except as described below.

GIANT GROUP, LTD., Plaintiff, against Glenn Sands; Arthur Andersen LLP;

Richard Salute; L.H. Friend, Weinress, Frankson & Presson, LLC. a/k/a/ L.H.

Friend, Weinress, Frankson & Presson, Inc.; Greg Presson; Friedman Alpren &

Green LLP; and Harriett Greenberg.

On June 27, 2001, the Company announced that it has filed a lawsuit in the Supreme Court of the State of New York against Glenn Sands; Arthur Andersen LLP; Richard Salute; L.H. Friend, Weinress, Frankson & Presson, LLC. a/k/a/ L.H. Friend, Weinress, Frankson & Presson, Inc.; Greg Presson; Friedman Alpren & Green LLP; and Harriett Greenberg for damages suffered as a result of wrongs complained of in connection with the acquisition of Periscope (see next paragraph). The relief sought by GIANT is in excess of 40 million dollars.

GIANT GROUP, LTD., Plaintiff against Glenn Sands; Arthur Andersen LLP; L.H.

Friend, Weinress, Frankson & Presson, Inc.; and Friedman, Alpren & Green LLP.

On or about October 6, 2000, the Company filed a civil action in the United States District Court for the Southern District of New York, Case No. 00 Civ. 7578, alleging claims under the United States securities laws against Glenn Sands, Arthur Andersen LLP ("AA"), L.H. Friend, Weinress, Frankson & Presson, Inc. ("LHF") and Friedman, Alpren & Green LLP ("Friedman"). The Company alleges that Mr. Sands, while acting as principal officer and shareholder of Periscope, made false and misleading representations about Periscope to the Company prior to the Company's acquisition of Periscope in December 1998. The Company also alleges that AA, LHF and Friedman failed to make necessary disclosures of material information related to Periscope and failed to fulfill their contractual and fiduciary obligations to the Company in connection with the Company's acquisition of Periscope. The Company requested a jury trial. Certain defendants moved to dismiss the complaint. On May 21, 2001, the United States District Court for the Southern District of New York rendered an opinion, which granted certain motions made by defendants Glenn Sands, AA, and Friedman to dismiss claims of securities fraud which were asserted against them. The Court granted the motion to dismiss the federal securities claims as against these defendants as well as co-defendant LHF, on the grounds that these claims were time barred under the statute of limitations applicable to Federal securities fraud claims. The Court did not rule on the viability of the related state law claims which were dismissed without prejudice to refiling in the appropriate state court.

Management is unable to predict the outcome of any litigation the Company is involved in at the present time.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS. (Dollars in thousands except per share amounts)

Edgar Filing: GIANT GROUP LTD - Form 10-Q

Results of Operations for the Three-Months Ended June 30, 2001 Versus June 30,

2000

General and administrative expenses for the three-months ended June 30, 2001 decreased \$161 to \$385 from \$546 for the comparable period in 2000. This decrease in expenses resulted primarily from the decrease in professional fees of \$65, corporate office salaries and related taxes and employee health insurance of \$49, corporate office expense of \$36 and taxes other than income of \$15.

Investment and other income for the three-months ended June 30, 2001 included \$140 received from Glenn Sands related to litigation resolved in 2000. This income was partially offset by an \$81 investment loss on certain investments in debt securities.

Effective June 30, 2001, the Company's President and Chief Executive Officer ("CEO") voluntarily authorized the Company to reduce his annual salary from \$450 to \$290.

Results of Operations for the Six Months Ended June 30, 2001 Versus June 30,

2000

General and administrative expenses for the six-months ended June 30, 2001 decreased \$340 to \$790 from \$1,130 for the comparable period in 2000. This decrease in expenses resulted primarily from the decrease of corporate office expense of \$160, corporate office salaries and related taxes and employee health insurance of \$112, professional fees of \$37 and taxes other than income of \$28.

The Company's consolidated statements of operations for the six-months ended June 30, 2000 were restated, increasing general and administrative expenses by \$482. This adjustment was first reflected in the Company's consolidated statements of operations for the three-months ended December 31, 2000. This restatement reversed a \$482 reduction of expense the Company recorded in the three-months ended March 31, 2000, as a result of the Company's CEO voluntarily authorizing the Company to retroactively cancel severance pay due to him, which had been accrued by the Company.

Liquidity and Capital Resources -----

Cash and cash equivalents and marketable securities at June 30, 2001 increased \$1,390 to \$6,658 compared with \$5,268 at December 31, 2000. The Company's working capital increased \$1,038 to \$6,141 at June 30, 2001 from \$5,103 at December 31, 2000 with current ratios of 9.5 and 9.2 to 1, respectively. Working capital increased due to higher appreciation on the Company's marketable securities partially offset by funding of the Company's expenses for the period.

The Company made an investment in Checkers debt and 2,849,003 warrants in 1996. Each warrant represents the right to purchase one share of Checkers common stock at an exercise price of \$.75. The Company wrote-off its investment in these warrants in 1998 after a two-year trend of Checkers common stock to trade below \$.75. As a result of a 12-1 reverse stock split in 1999, the Company now owns 237,416 warrants at an exercise price of \$3.00, after the exercise price was reduced by Checkers. At June 30, 2001, the closing market price of Checkers common stock was \$5.86.

Net cash used by continuing investing activities for the six-months ended

Edgar Filing: GIANT GROUP LTD - Form 10-Q

June 30, 2001 was \$247 compared to net cash provided of \$4,015 for the comparable period in 2000. The Company paid the short-term margin loan of \$246 in August with proceeds from the sale of the related securities.

Cash and cash equivalents, marketable securities and investment income provide the Company's current liquidity. Management believes that this liquidity is sufficient for the Company to fund its current operating expenses.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary financial instruments consist of money market funds paying interest at varying interest rates, equity securities and bond investments with fixed interest rates. The Company's market risk is the potential decrease in the value of the Company's financial instruments resulting from lower market prices. The Company does not enter into derivatives for trading or interest rate exposure. The Company attempts to make prudent and informed business decisions before investing in equity securities.

For the six months ended June 30, 2001, the Company believes there was no material change in the Company's primary financial instruments and related market risk.

9

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS. (Dollars in thousands except per share amounts)

Personal Holding Company

Under the Internal Revenue Code, in addition to the regular corporate income tax, an additional tax may be levied upon an entity that is classified as a "personal holding company". In general, this tax is imposed on corporations which are more than 50% owned, directly or indirectly, by 5 or fewer individuals (the "Ownership Test") and which derive 60% or more of their income from "personal holding company" sources, generally defined to be passive income (the "Income Test"). If a corporation falls within the Ownership Test and the Income Test, it is classified as a personal holding company, and will be taxed on its "undistributed personal holding company income" at a rate of 39.6%. The Company currently meets the stock ownership test. The Company has not met the income requirement in recent years, therefore is not subject to this additional tax; however no assurance can be given that the income test will not be satisfied in the future.

5. Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board finalized FASB Statements No. 141, Business Combinations (SFAS 141), and No. 142, Goodwill and Other Intangible Assets (SFAS 142). SFAS 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS 141 also requires that the Company recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. It also requires, upon adoption of SFAS 142, that the Company reclassify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS 141.

Edgar Filing: GIANT GROUP LTD - Form 10-Q

SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires that the Company identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS 142. SFAS 142 is required to be applied in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized. SFAS 142 requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company is also required to reassess the useful lives of other intangible assets within the first interim quarter after adoption of SFAS 142.

10

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

For information regarding legal matters, see Note 6 of the Notes to Consolidated Financial Statements on page 8 of this Form 10-Q and Item 3 "Legal Proceedings" reported in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.

Item 6. Exhibits and Reports on Form 8-K

(a) There were no reports filed on Form 8-K during the second quarter of 2001.

Items 2,3,4 and 5 are not applicable.

SIGNATURE

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.

GIANT GROUP, LTD. - Registrant

By: /s/ Pasquale A. Ambrogio

Pasquale A. Ambrogio
Vice President, Chief Financial
Officer, Secretary and Treasurer

Date: August 10, 2001

11

