

Edgar Filing: GIANT GROUP LTD - Form 10-Q

GIANT GROUP LTD  
Form 10-Q  
May 15, 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 first quarterly period ended March 31, 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 May 9, 2001 the latest practicable date, there were 3,174,757 shares of Common Stock outstanding.

GIANT GROUP, LTD.

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### ITEM 1. FINANCIAL STATEMENTS

GIANT GROUP, LTD.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
for the three-months ended March 31, 2000 and 2001  
(Unaudited)  
(Dollars in thousands, except per share amounts)

	Three-months ended March 31,	
	2001	2000
Costs and expenses:		
General and administrative	\$ 405	\$ 584
Depreciation	9	6
	414	590
Other income:		
Investment and other income	16	10
Gain on sale of marketable securities	-	17
	16	27
Loss from continuing operations	(398)	(563)
Income from discontinued operations (Note 2)	-	149

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Net loss	\$ (398)	\$ (414)
	=====	=====
Basic and diluted loss per common share:		
Loss from continuing operations	\$ (0.13)	\$ (0.14)
Income from discontinued operations	-	0.04
	-----	-----
Net loss	\$ (0.13)	\$ (0.10)
	=====	=====
Weighted average shares - basic and diluted	3,155,000	3,990,000
	=====	=====

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

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GIANT GROUP, LTD.  
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	March
	20
	-----
	(Unaud
ASSETS	
Current assets:	
Cash and cash equivalents	\$
Marketable securities	5
Income tax receivable	
Prepaid expenses and other assets	
	-----
Total current assets	6
Property and equipment, net	
Other assets	
	-----
Total assets	\$ 7
	=====
LIABILITIES	
Current liabilities:	
Accounts payable	
Accrued expenses	
Deferred income taxes	
Income taxes payable	
	-----
Total current liabilities	1
Deferred income taxes	
	-----
Total liabilities	1
	-----
COMMITMENTS AND CONTINGENCIES (Note 4)	

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### 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, 7,266,000 shares issued  
 Capital in excess of par value  
 Accumulated other comprehensive income (expense) (Note 3)  
 Accumulated deficit

Less 4,111,000 in 2001 and 2000 shares of Common stock in treasury, at cost

Total stockholders' equity

Total liabilities and stockholders' equity

35  
 (1)  
 -----  
 34  
 (28)  
 -----  
 5  
 -----  
 \$ 7  
 =====

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

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GIANT GROUP, LTD.  
 CONSOLIDATED STATEMENTS OF CASH FLOW  
 for the three-months ended March 31, 2000 and 2001  
 (Unaudited)  
 (Dollars in thousands, except per share amounts)

	Three-month March 2001 -----
Operating Activities:	
Net loss	\$ (398)
Adjustments to reconcile net loss to net cash used by operations:	
Income from discontinued operations	-
Depreciation	9
Accretion of discounts on marketable securities	-
Gain on the sale of marketable securities	-
Reversal of executive deferred compensation	-
Changes in assets and liabilities:	
Decrease in prepaid expenses and other current assets	5
Decrease in accounts payable and accrued expenses	(49)
Decrease in income tax payable	(3)
	-----
Net cash used by continuing operations	(436)
Net cash provided by discontinued operations	-
	-----
Net cash used by operations	(436)
	-----
Investing Activities:	
Sales of marketable securities	-
Purchases of marketable securities	(36)
Purchases of property and equipment	-
	-----
Net cash (used) provided by continuing investing activities	(36)

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Purchases of property and equipment (discontinued operations)	-
	-----
Net cash (used) provided by investing activities	(36)
	-----
 Financing Activities:	
Payment of note-receivable - related party (discontinued operations)	-
Payment of capital lease obligations (discontinued operations)	-
	-----
Net cash used by financing activities	-
	-----
 (Decrease) increase in cash and cash equivalents	 (472)
 Cash and cash equivalents:	
Beginning of period	1,428
	-----
End of period	\$ 956
	=====
 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	-

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

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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  
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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  
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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

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accruals) necessary to present fairly the financial position as of March 31, 2001 and the results of operations and cash flows for the three-month periods ended March 31, 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 three-month period ended March 31, 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

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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.

The Company has reclassified its apparel operations for the three months ended March 31, 2000 as discontinued operations on the Consolidated Statement of Operations.

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

### 3. Comprehensive Income (Expense)

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The changes in components of comprehensive income (expense), net of provision (benefit) for income taxes, for the three months ended March 31, 2001 and 2000 are as follows:

	2001			
	Pre-Tax Amount	Tax Provision	Net Amount	Pre-T Amount
Other comprehensive income (expense):				
Unrealized gains on marketable securities, net	\$ 1,751	\$ 700	\$ 1,051	\$ 13
Net Loss			(398)	
Comprehensive income (expense)			\$ 653	

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4. Commitments and Contingencies

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 three months ended March 31, 2001.

Management does not believe that these lawsuits in which the Company is a defendant, contain meritorious claims. Management is unable to predict the outcome of these matters at the present time.

5. Subsequent Event

On April 20, 2001, the Company announced it's offering to purchase any and all outstanding shares of its Common Stock and associated Preferred Stock Purchase Rights for \$.50 net per share. The offer to purchase had been conditioned upon, among other things, the tender by a sufficient number of stockholders such that following the offer to purchase; GIANT would have less than 300 shareholders. On May 8, 2001, the Company amended the offer to purchase. The Company will now purchase all shares of its Common Stock validly tendered and not withdrawn prior to May 23, 2001, unless the offer is further extended or terminated by GIANT. The Company intends 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.

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

Results of Operations for the Three-Months Ended March 31, 2001 Versus March 31, 2000)

General and administrative expenses for the three-months ended March 31, 2001 decreased \$179 to \$405 from \$584 for the comparable period in 2000. This decrease in general and administrative expenses resulted primarily from lower corporate salaries and related expenses of \$64, lower rent expense of \$62 and decreases in other corporate expenses in 2001 compared to 2000.

Liquidity and Capital Resources

Cash and cash equivalents, marketable securities and income tax receivables at March 31, 2001 totaled \$6,681 compared with \$5,439 at December 31, 2000. The increase in working capital resulted primarily from the appreciation of the Company's marketable securities, reduced by working capital needed for the Company's expenses during the current quarter. At March 31, 2001 and December 31, 2000, the Company had working capital of \$5,765 and \$5,103 with current ratios of 5.9 to 1 and 9.2 to 1, respectively.

Net cash used by continuing investing activities for the three-months ended March 31, 2001 was \$36 compared to cash provided by continuing investing activities of \$1,794 for the comparable period in 2000. Included in continuing investing activities was cash used for the purchase of marketable securities of \$36 in 2001 compared to proceeds from the sale, net of purchases, of \$1,866 in

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2000. These proceeds were reduced by capital expenditures of \$72 in 2000.

No cash was provided or used by continuing financing activities for the three-months ended March 31, 2001 and 2000.

The Company's current liquidity is provided by cash and cash equivalents, marketable securities, income tax receivable and investment income. Management believes that this liquidity, plus the Company's capital resources, is sufficient for the Company to fund its current operating expenses and the offering to purchase any and all outstanding shares of its Common Stock and associated Preferred Stock Purchase Rights for \$.50 net per share, which was announced on April 20, 2001.

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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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 three months ended March 31, 2001, the Company believes there was no material change in the Company's primary financial instruments and related market risk.

### Personal Holding Company

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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.

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## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings.

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For information regarding legal matters, see Note 4 of the Notes to Consolidated Financial Statements on page 7 of this Form 10-Q and Item 3 "Legal Proceedings" as 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

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(a) Reports on Form 8-K

There were no reports filed on Form 8-K during the first 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

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

Date: May 10, 2001