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INDEX TO FINANCIAL STATEMENTS AND SUPPORTING SCHEDULES

FOR OCTOBER 27, 2001 FORM 10-Q QUARTERLY REPORT

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ANGELICA CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

QUARTER ENDED OCTOBER 27, 2001

- (1) The accompanying consolidated condensed financial statements are unaudited, and it is suggested that these consolidated statements

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be read in conjunction with the fiscal 2001 Annual Report, including Notes to Consolidated Financial Statements. However, it is the opinion of the Company that all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results during the interim period have been included.

- (2) See Index to Financial Statements and Supporting Schedules on page 1. Those pages of the Angelica Corporation and Subsidiaries Quarterly Report to Shareholders for the quarter ended October 27, 2001, listed in such index are incorporated herein by reference. The pages of the Quarterly Report to Shareholders which are not listed on the index and therefore not incorporated herein by reference are furnished for the information of the Commission but are not to be deemed "filed" as a part of this report. The Quarterly Report to Shareholders referred to herein is located immediately following page 4 of this report.
- (3) For purposes of the Consolidated Statements of Cash Flows, the Company considers short-term, highly liquid investments which are readily convertible into cash, as cash equivalents.
- (4) In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 governs the initial recognition and measurement of intangible assets acquired in business combinations initiated after June 30, 2001. Under SFAS 142, goodwill recorded as of June 30, 2001 will no longer be amortized effective with the date of adoption, which is January 27, 2002 for the Company. Additionally, any goodwill recognized from a business combination completed after June 30, 2001 will not be amortized. Instead, goodwill will be tested for impairment as of the date of adoption and at least annually thereafter using a fair-value based analysis. The Company has not determined the effect on its consolidated financial statements that will result from the adoption of SFAS 141 and SFAS 142. Goodwill amortization expense is expected to be approximately \$400,000 in fiscal 2002, and would be a comparable amount in fiscal 2003, absent this accounting change.

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ANGELICA CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

AND FINANCIAL CONDITION

QUARTER ENDED OCTOBER 27, 2001

Analysis of Operations

Combined sales and textile service revenues for the third quarter

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and first three quarters increased 0.7 percent and 2.9 percent, respectively, over the comparable prior year periods. This represents the fifth consecutive quarterly increase in combined sales and revenues. As was the case in the second quarter this year, an excellent performance was turned in by the Textile Services segment, however, sales and earnings of the manufacturing and retail business segments continued to be affected by the impact of the recessionary environment. Earnings per share of \$.21 in the third quarter were slightly lower than \$.23 last year, and earnings per share in the first three quarters of this year were \$.48 compared with \$.62 last year, a decline of 22.6 percent.

The Textile Services segment posted revenue and earnings gains as net new business continued to be added at record levels. Revenues of this segment increased 6.8 percent in the third quarter despite the loss of some revenue from hospitality customers due to the effect of the economy on that industry, and are up 7.6 percent for the year. Earnings increased 52.7 percent in the quarter and 26.4 percent in the first three quarters, aided by the higher revenues, increased plant productivity and improved linen management. Third quarter sales of the Manufacturing and Marketing segment decreased 7.2 percent and operating earnings fell by 74.3 percent compared to the same period a year ago. This segment was affected to a greater extent by the aftermath of the September terrorist attacks on sales to certain market segments, such as lodging, food service, gaming and recreation. Gross margins and earnings were negatively affected by the closing of another domestic manufacturing plant as well as a shift in sales mix to more lower-margin program business. The results benefited from a \$1,072,000 reduction in operating expenses in the quarter at Angelica Image Apparel, the domestic operations of this segment, due to the cost reduction initiatives implemented in the second and third quarters of this year. These cost reductions exceed \$5,000,000 on an annualized basis. For the first three quarters of the year, earnings of the Manufacturing and Marketing segment were down 61.0 percent on a 2.6 percent decline in sales. Third quarter sales at Life Retail Stores were down 3.8 percent as same-store sales declined 6.6 percent amid soft demand for retail apparel. Sales from the catalogue and e-commerce distribution channels increased substantially and reached breakeven level for the first time in the month of October. Sales for the first three quarters decreased 1.3 percent due to a same-store sales decline of 3.6 percent. Operating earnings of \$812,000 in the third quarter were 34.9 percent below the same period last year. However, this represents a turnaround from the \$712,000 operating loss recorded in the second quarter of this year and brought the segment to breakeven for the year. Gross margins and earnings have benefited from greater control over promotional markdowns and advertising expense.

Selling, general and administrative expenses decreased 1.2 percent in the third quarter compared with the same period last year. As a percent of combined sales and textile service revenues, these expenses decreased from 25.2 percent to 24.7 percent in the quarter reflecting

the operating expense reductions implemented in the Manufacturing and Marketing segment. Interest expense was lower by \$268,000 in the quarter due mainly to prepayment of debt, but was partially offset by reduced interest income on less invested cash and lower investment

rates.

Financial Condition

The Company continues to maintain a strong balance sheet. During the third quarter, all of the \$25,000,000 of 9.15 percent debt maturing on December 31, 2001 was prepaid using proceeds from a \$12,000,000 three-year bank loan plus cash. Concentrated efforts to reduce inventories have yielded declines of \$4,109,000 and \$7,594,000 in the third quarter and first three quarters, respectively. Linens in service have been reduced by \$389,000 since the beginning of the year despite the added volume in the Textile Services segment. Working capital of \$134,027,000 and a current ratio of 3.5 to 1 at October 27, 2001 were both healthy.

Cash generated from operations of \$16,348,000 in the first three quarters was \$1,132,000 greater than the comparable prior year period. This increase was due principally to the reduction in inventories and linens in service offset in part by cash used in the first quarter this year to pay for the inventory build-up in last year's fourth quarter in the Manufacturing and Marketing segment. Capital expenditures increased \$3,164,000 in the current year, primarily to support productivity improvements and energy efficiency in the Textile Services segment and for investments in new Life Retail stores and supporting information systems. The \$9,705,000 increase in cash used in financing activities compared to last year reflects the use of \$13,000,000 of cash for the debt prepayment less a reduction in dividends paid. Despite the debt repayment, the Company ended the quarter with a strong cash balance on hand of \$10,019,000.

Based on the Company's cash generation from operations, as well as its strong working capital position, current ratio and ratio of long-term debt to debt-plus-equity, Management believes that internal funds available from operations plus external funds available from the issuance of additional debt and/or equity as needed in the future, will be sufficient for all planned operating and capital requirements, including acquisitions.

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, availability of non-domestic image apparel contractors to manufacture and deliver at an appropriate cost and in a timely manner, the ability to attract and retain key personnel, unusual or unexpected cash needs for operations or capital transactions, and other factors which may be identified in the Company's filings with the Securities and Exchange Commission.

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EXHIBIT A

TEXTILE SERVICES IMAGE APPAREL INNOVATION VALUE

Angelica [Logo]

Angelica Corporation
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November 15, 2001

Dear Fellow Shareholder:

Third quarter earnings per share of \$.21 were slightly less than \$.23 per share in the third quarter last year. Our largest segment, Textile Services, recorded impressive revenue and earnings increases; however, these were insufficient to counter the economic weakness affecting both the Manufacturing and Marketing and the Life Retail Stores segments. Given the very weak economic conditions existing in many of the market segments that we serve, exacerbated by the senseless acts of terrorism our country experienced in the past two months, the results achieved are a testimony to the hard work done by the management teams in each of our business segments.

Combined sales and textile service revenues were \$119,078,000 in the third quarter compared with \$118,277,000 in the same period last year, an increase of 0.7 percent. Pretax income was \$2,819,000 versus \$3,165,000 last year, and net income decreased 9.5 percent to \$1,805,000 from \$1,994,000 in last year's third quarter. For the first three quarters of this fiscal year, combined sales and textile service revenues increased 2.9 percent to \$355,553,000 compared with \$345,469,000 last year. Pretax income was \$6,482,000 compared with \$8,536,000 for the comparable period last year. Net income decreased 22.9 percent to \$4,149,000 from \$5,378,000 in the prior year period, and earnings per share for the three quarters were \$.48 compared with \$.62 last year.

As was the case in the second quarter, the Textile Services segment had a very strong quarter in terms of revenues and especially earnings. These increases were achieved despite some revenue losses at non-healthcare customers as a result of the weak economy. Revenues in this segment increased 6.8 percent to \$65,336,000 compared with \$61,159,000 in the third quarter last year. Operating earnings increased 52.7 percent in the quarter to \$4,785,000 compared with \$3,133,000 last year. In comparing the first three quarters of this year to last, revenues have increased by \$13,899,000 or 7.6 percent, and earnings have increased by \$2,999,000 or 26.4 percent. Plant productivity increases, continued improvement in linen management plus more efficient use of energy propelled strong earnings increases from satisfactory revenue gains. As stated in a previous report to you, we intend to reinvest in this segment and have received approval from the Board of Directors to build a new laundry processing facility in the southwestern part of the United States. Paul Anderegg, Textile Services President, and Ed Ryan, Executive Vice President of Marketing, and the rest of the management team of this segment are to be complimented on the impressive turnaround they have led.

In the third quarter, the Manufacturing and Marketing segment's sales (before intersegment sales) declined 7.2 percent to \$36,260,000 compared

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with \$39,057,000 last year. Operating earnings fell to \$514,000 compared with \$2,000,000 in the same quarter last year, a decline of 74.3 percent. Despite these disappointing results, it should be noted that the management team reduced expenses considerably in the third quarter relative to the run-rate for the first half of the year. On an annualized basis, operating expenses and cost of sales reductions exceed \$5,000,000. Another positive factor was the reduction in segment inventories to \$68,239,000, down from \$74,923,000 at the beginning of this year. It has been a painful year for the management team of Angelica Image Apparel, the domestic operations of Manufacturing and Marketing. However, the weak economic conditions, beginning in the fourth quarter of last year and intensifying as the new year unfolded, made cost reduction actions absolutely necessary. Had it not been for some strong sales and marketing efforts to add new customers, sales levels would have fallen even further than they did. Many of the market segments served by Manufacturing and Marketing have been severely affected by current business conditions, and the outlook for the remainder of the year is guarded as well. While the fourth quarter

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may be challenging for the Canadian operations too, because of their focus on lodging, they have had impressive sales and earnings increases in the first three quarters compared to last year. Helen Loader, President of the Canadian operations, and her management team continue to maintain market leadership in the premium and upscale lodging markets. Undoubtedly, the string of earnings increases the Manufacturing and Marketing segment has achieved in each of the preceding three fiscal years will not be continued this year.

The lack of consumer confidence currently prevalent in our country that is negatively affecting apparel retailers generally caused a 6.6 percent same-store sales decline at Life Retail in the third quarter, the second quarterly decline in a row. Fortunately, we did have excellent increases in our catalogue and e-commerce sales as customers chose to "call-in and log-on" as opposed to "coming in" to retail locations. Overall, third quarter sales declined 3.8 percent to \$23,930,000 compared with \$24,876,000 last year. This segment had operating earnings of \$812,000 compared with \$1,248,000 in last year's third quarter. The current quarter's earnings compared favorably to the loss of \$712,000 incurred in the second quarter this year. Gross margins have continued to improve, reflecting "fresher" merchandise in the stores and fewer markdowns. Life added three stores shortly after quarter end as a consequence of an opportunistic acquisition in the Las Vegas, NV marketplace and currently has a total of 287 stores.

During the quarter, we prepaid all of the \$25,000,000 of long-term debt due at the end of December. We used \$13,000,000 of cash and \$12,000,000 from a three-year bank loan to pay down this debt. Interest costs in the second half of the year will be reduced by \$384,000, offset by less interest income as a result of less invested cash and lower investment rates. We are also pleased that total inventories, which were higher than we would have liked at the beginning of the year, have been reduced by \$7,594,000 as of the end of the third quarter.

The segment management teams and the corporate management team are hard at work developing our new three-year strategic plan. I must admit that the crystal ball is pretty cloudy for all of us. All indications are that it will be a number of months before any economic recovery begins. Fortunately, a high percentage of Angelica's activities are centered in the healthcare

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services industry, one that is less affected by reduction in travel and cutbacks in consumer spending. During this planning process we are critically evaluating the structural changes that are occurring in each of our business segments. We continue to evaluate alternative ways of adding shareholder value, recognizing that the world of business has been changed inexorably forever and that some proven practices of the past are no longer applicable. Making changes to practices that are now ineffective and inefficient is a long process and an arduous task, but it must be accomplished. We are committed to making these changes while minimizing risks as much as feasible. We realize that many of the dislocations that will occur are unavoidable, but they still must be implemented with sensitivity for our associates and customers.

I must, once again, reduce our earnings expectations for the year. It now appears that we will earn between \$.55 and \$.60 per share. I do believe, however, that the steps we are taking will put us in excellent position to earn significantly more than this in the next fiscal year, with increases in the years following that.

Respectfully submitted,

/s/ Don W. Hubble

Don W. Hubble
Chairman, President and Chief Executive Officer

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

	Third Quarter Ended		October 2, 2000
	October 27, 2001	October 28, 2000	
Textile service revenues	\$ 65,336	\$ 61,159	\$19,000
Net sales	53,742	57,118	15,000
	119,078	118,277	35,000
Cost of textile services	51,294	49,201	15,000
Cost of goods sold	33,315	33,967	9,000
	84,609	83,168	25,000
Gross profit	34,469	35,109	10,000

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Selling, general and administrative expenses	29,415	29,760	9
Interest expense	1,792	2,060	
Other expense, net	443	124	
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	31,650	31,944	9
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Income before income taxes	2,819	3,165	
Provision for income taxes	1,014	1,171	
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Net income	\$ 1,805	\$ 1,994	\$
	=====	=====	===
Basic and diluted earnings per share *	\$ 0.21	\$ 0.23	\$
	=====	=====	===
Dividends per common share	\$ 0.08	\$ 0.08	\$
	=====	=====	===

Comprehensive income, consisting of net income and foreign currency translation adjustments, totaled \$1,692 and \$1,779 for the quarters ended October 27, 2001 and October 28, 2000, respectively; and \$3,982 and \$5,019 for the three quarters ended October 27, 2001 and October 28, 2000, respectively.

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

For fiscal year 2002, the effective tax rate was adjusted downward from 37.0 percent to 36.0 percent to reflect lower actual state tax expense levels.