

SYRATECH CORP
Form 10-Q
August 14, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2001

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

For the transition period from _____ to _____

Commission File Number: 1-12624

Syratech Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

13-3354944

(I.R.S. Employer
Identification No.)

175 McClellan Highway
East Boston, Massachusetts

(Address of principal executive office)

02128-9114

(Zip Code)

Registrant's telephone number, including area code - 617-561-2200

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Sections 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 o NO ý

Number of Shares of Common Stock, Par Value \$0.01 per share, outstanding at June 30, 2001-3,784,018

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SYRATECH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(in thousands, except share data)

	June 30, 2001	December 31, 2000
	<u> </u>	<u> </u>
ASSETS		
Current assets:		
Cash and equivalents	\$ 1,555	\$ 3,442
Accounts receivable, net	38,227	103,637
Inventories	114,244	92,749
Deferred income taxes	19,641	14,156
Prepaid expenses and other	4,140	3,318
	<u> </u>	<u> </u>
Total current assets	177,807	217,302
Property, plant and equipment, net	70,282	71,776
Purchase price in excess of net assets acquired, net	6,395	6,566

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Other assets, net		5,318	5,446
		<u>5,318</u>	<u>5,446</u>
Total	\$	259,802	\$ 301,090
		<u>259,802</u>	<u>301,090</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Revolving loan facilities and notes payable	\$	38,813	\$	67,318
Accounts payable		17,035		13,642
Accrued expenses		6,569		15,178
Accrued interest		3,757		3,743
Accrued compensation		2,758		3,421
Accrued advertising		2,345		3,610
Income taxes payable		471		289
		<u>71,748</u>		<u>107,201</u>
Total current liabilities		71,748		107,201

Long - term debt		158,402		148,550
Deferred income taxes		20,548		20,547
Pension liability		2,405		2,568

Commitments and contingencies

Stockholders' equity:

Preferred stock, \$.01 par value, 500,000 shares authorized; (25,000 designated as cumulative redeemable preferred stock, 18,000 shares issued and outstanding, liquidation value of \$18,000, and includes accrued and unpaid dividends of \$11,084 and \$9,438 in 2001 and 2000, respectively)		29,084		27,438
Common stock, \$.01 par value, 20,000,000 shares authorized; 3,784,018 shares issued and outstanding		38		38
Deficit		(20,745)		(4,331)
Accumulated other comprehensive loss		(1,678)		(921)
		<u>6,699</u>		<u>22,224</u>
Total stockholders' equity		6,699		22,224
		<u>6,699</u>		<u>22,224</u>
Total	\$	259,802	\$	301,090
		<u>259,802</u>		<u>301,090</u>

See notes to consolidated financial statements.

SYRATECH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Net sales (1)	\$ 40,570	\$ 47,141	\$ 82,277	\$ 102,468
Cost of sales	28,322	34,715	60,216	75,178
	<u>40,570</u>	<u>47,141</u>	<u>82,277</u>	<u>102,468</u>

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Gross profit	12,248	12,426	22,061	27,290
Selling, general and administrative expenses	15,565	16,097	31,816	34,717
Other operating income	332	451	776	870
Loss from operations	(2,985)	(3,220)	(8,979)	(6,557)
Interest expense	(5,372)	(5,513)	(10,718)	(10,969)
Interest income	2	12	6	26
Loss before benefit for income taxes	(8,355)	(8,721)	(19,691)	(17,500)
Benefit for income taxes	(2,089)	(2,186)	(4,923)	(4,381)
Net loss	(6,266)	(6,535)	(14,768)	(13,119)
Preferred stock dividends accrued	823	735	1,646	1,470
Net loss applicable to common stockholders	\$ (7,089)	\$ (7,270)	\$ (16,414)	\$ (14,589)
Basic and diluted income (loss) per share:				
Net income (loss) per common share	\$ (1.87)	\$ (1.92)	\$ (4.34)	\$ (3.86)
Weighted average number of shares outstanding	3,784	3,784	3,784	3,784

(1) See Management's Discussion and Analysis of Financial Condition and Results of Operations for an explanation of year-to-date sales decrease.

See notes to consolidated financial statements

SYRATECH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(in thousands)

Six Months Ended June 30,

2001 2000

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Cash flows from operating activities:		
Net loss	\$ (14,768)	\$ (13,119)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,860	4,473
Deferred income taxes	(5,484)	(4,894)
Loss (gain) on disposal of assets	55	2
Pension liability	(163)	(667)
Increase (decrease) in assets and liabilities:		
Accounts receivable	65,410	31,173
Inventories	(21,495)	(25,547)
Prepaid expenses and other	(822)	(658)
Accounts payable and accrued expenses	(7,130)	2,661
Income taxes payable	182	(316)
Net cash provided by (used in) operating activities	20,645	(6,892)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(2,850)	(2,564)
Proceeds from disposal of assets	191	91
Other	(26)	-
Net cash used in investing activities	(2,685)	(2,473)
Cash flows from financing activities:		
Change in revolving loan facilities and notes payable	(18,653)	11,405
Deferred financing costs and other	(1,194)	(655)
Net cash provided by (used in) financing activities	(19,847)	10,750
Net increase (decrease) in cash and equivalents	(1,887)	1,385
Cash and equivalents, beginning of period	3,442	1,451
Cash and equivalents, end of period	\$ 1,555	\$ 2,836

See notes to consolidated financial statements

SYRATECH CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(in thousands, except share and per share data)

1. FINANCIAL INFORMATION

The accompanying unaudited interim condensed consolidated financial statements of Syratech Corporation and Subsidiaries (the "Company") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. Certain prior year amounts have been reclassified to conform to the 2001 presentation. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements

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and notes included in the Company's 2000 Annual Report on Form 10 - K.

In the opinion of management, the interim condensed consolidated financial statements reflect all adjustments, which consist only of normal and recurring adjustments, necessary for a fair presentation of the interim periods. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year.

2. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	Six Months Ended June 30,	
	2001	2000
Cash paid during the period for:		
Interest	\$ 9,954	\$ 10,260
Income taxes	\$ 780	\$ 1,087
Supplemental schedule of non-cash financing activities:		
Accrued cumulative redeemable preferred stock dividends	\$ 1,646	\$ 1,470

3. INVENTORIES

Inventories consisted of the following:

	June 30, 2001	December 31, 2000
Raw materials	\$ 10,620	\$ 10,757
Work-in-process	8,504	8,062
Finished goods	95,120	73,930
Total	\$ 114,244	\$ 92,749

4. INCOME TAXES

The benefit for income taxes for the six month periods ended June 30, 2001 and 2000 have been computed using the estimated effective full year tax rate of 25%. Realization of the income tax benefit is dependent upon generating sufficient future taxable income. Although realization is not assured, management believes it is more likely than not that the income tax benefit will be realized through future taxable earnings.

5. COMPREHENSIVE LOSS

Comprehensive loss consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Net loss applicable to common stockholders	\$ (7,089)	\$ (7,270)	\$ (16,414)	\$ (14,589)
Other comprehensive loss:	\$ (98)		\$ (197)	

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Minimum pension liability adjustments				
Foreign currency translation adjustments	(430)	(455)	(560)	(673)
Comprehensive loss	\$ (7,617)	\$ (7,725)	\$ (17,171)	\$ (15,262)

6. ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations." SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. The Company does not believe that the adoption of SFAS 141 will have a significant impact on its financial statements.

In July 2001, the Financial Accounting Standards Board approved Financial Accounting Standard No. 142 - "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 includes requirements to test goodwill and indefinite lived intangible assets for impairment rather than amortize them. Goodwill amortization recorded during the six months ended June 30, 2001 aggregated \$171. SFAS 142 will be effective for fiscal years beginning after December 15, 2001. The Company will adopt SFAS 142 beginning in the first quarter of 2002. The financial statement impact has not yet been determined.

7. SEGMENT DISCLOSURES

The Company has identified only one distinct and reportable segment: Home Entertainment and Decorative Products, which generates revenue from two types of product offerings: Tabletop and Giftware, and Seasonal. The following table presents the Company's net sales in these product categories for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Tabletop and Giftware	\$ 37,031	\$ 40,072	\$ 78,320	\$ 81,906
Seasonal	3,539	7,069	3,957	20,562
Total	\$ 40,570	\$ 47,141	\$ 82,277	\$ 102,468

8. REVOLVING LOAN FACILITIES

The Company has a five year Senior Revolving Credit Facility (the Facility) dated April 16, 1997 (amended effective as of July 31, 1997, December 31, 1997, March 30, 1998, December 31, 1998, March 26, 2001 and August 13, 2001) which provides for \$123,000 of borrowings, including a \$30,000 sublimit for the issuance of standby and commercial letters of credit. The obligations of the Company under the Facility are secured by inventory and accounts receivable of the Company and its domestic subsidiaries, and by a pledge of 100% of the domestic subsidiaries and at least 65% of the foreign subsidiaries outstanding capital stock. The Facility expires on April 15, 2002. Pursuant to the amended agreement, effective August 16, 2001, borrowings made under the Facility bear interest at a rate equal to, at the Company's option, the Eurodollar Rate plus 375 basis points or the Prime Rate plus 100 basis points; covenants requiring minimum ratios of earnings before income taxes, depreciation, amortization, and certain adjustments (EBITDA), including funded debt to EBITDA and fixed charge coverage have been eliminated; a minimum annual EBITDA requirement of \$18 million at the quarter ended September 30, 2001 and \$15 million at quarters ended on or after December 31, 2001 was established; and the Company is required to maintain excess availability of \$15 million beginning August 16, 2001 to September 30, 2001, and at least \$10 million thereafter. During February and March of 2002, the minimum availability requirement is \$25 million. The Company is in compliance with the covenants, as amended, as of June 30, 2001 and for the quarter then ended. Availability under the Revolving Credit Facility, net of outstanding letters of credit, was \$33.9 million at June 30, 2001.

On August 2, 2001, the Company renewed its Wallace International de Puerto Rico, Inc. \$1,000 credit facility. The renewed facility expires on April 30, 2002 and its terms require that the facility be paid down to zero for one 15 consecutive day period prior to that date. Borrowings under the facility bear interest at a rate equal to the Prime Rate plus 100 basis points. Availability under the Facility was \$0.1 million at June 30, 2001.

9. SUPPLEMENTAL CONSOLIDATING FINANCIAL STATEMENTS

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The following supplemental consolidating financial statements as of June 30, 2001 and 2000 present separate financial information for the Company ("Issuer/Guarantor Parent"), the Guarantor Subsidiaries, and the Non-Guarantor Subsidiaries. Certain prior year amounts have been reclassified to conform with the 2001 presentation. Separate financial statements of each guarantor are not presented because management believes that such statements would not be materially different from the information presented herein.

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEETS June 30, 2001

	Issuer/ Guarantor Parent	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and equivalents	\$	\$	278	\$	\$ 1,555
Accounts receivable, net		28,988	9,239		38,227
Inventories		109,834	4,369	41	114,244
Deferred income taxes	6,986	12,655			19,641
Prepaid expenses and other	113	3,621	406		4,140
Total current assets		7,099	155,376	15,291	41
Property, plant and equipment, net		67,570	2,759	(47)	70,282
Purchase price in excess of net assets acquired		5,945		450	6,395
Other assets, net	5,425	387		(494)	5,318
Investment	49,665	9,793	-	(59,458)	-
Total	\$	62,189	\$	239,071	\$
			18,050	\$	(59,508)
					\$ 259,802

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:					
Revolving loan facilities and notes payable	\$	\$	38,813	\$	\$ 38,813
Accounts payable			7,417	9,618	17,035
Accrued expenses	40	6,219	310		6,569
Accrued interest	3,832	302		(377)	3,757
Accrued compensation		2,620	138		2,758
Accrued advertising		2,345			2,345
Income taxes payable	(9,893)	7,360	471	2,533	471
Total current liabilities		(6,021)	65,076	10,537	2,156
Long -term debt		165,000	9,852	(16,450)	158,402
Deferred income taxes		10,174	10,374		20,548
Pension liability and other long-term liabilities			2,405		2,405
Intercompany (receivable) payable		(3,437)	26,307	(24,639)	1,769
Stockholders' equity (deficit)		(103,527)	125,057	32,152	(46,983)
Total	\$	62,189	\$	239,071	\$
			18,050	\$	(59,508)
					\$ 259,802

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEETS December 31, 2000

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	Issuer/ Guarantor Parent	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and equivalents	\$	\$	968	\$ 2,474	\$ 3,442
Accounts receivable, net			97,839	5,798	103,637
Inventories			87,267	5,441	92,749
Deferred income taxes		4,797	9,359		14,156
Prepaid expenses and other		113	2,799	406	3,318
Total current assets		4,910	198,232	14,119	41
					217,302
Property, plant and equipment, net			68,676	3,150	(50)
Purchase price in excess of net assets acquired			6,066		500
Other assets, net		5,790	150	(494)	5,446
Investment		49,665	9,793	(59,458)	-
Total	\$	60,365	\$ 282,917	\$ 17,269	\$ (59,461)
					\$ 301,090

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:					
Revolving loan facilities and notes payable	\$	\$	67,318	\$	\$ 67,318
Accounts payable			7,556	6,086	13,642
Accrued expenses		41	13,947	1,190	15,178
Accrued interest		3,832	288	(377)	3,743
Accrued compensation			2,997	424	3,421
Accrued advertising			3,610		3,610
Income taxes payable		(9,893)	7,315	346	2,521
				2,521	289
Total current liabilities		(6,020)	103,031	8,046	2,144
					107,201
Long-term debt				(16,450)	148,550
Deferred income taxes		10,174	10,373		20,547
Pension liability			2,568		2,568
Intercompany (receivable) payable		(13,127)	36,002	(21,860)	(1,015)
					-
Stockholders' equity (deficit)		(95,662)	130,943	31,083	(44,140)
					22,224
Total	\$	60,365	\$ 282,917	\$ 17,269	\$ (59,461)
					\$ 301,090

**SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
THREE MONTHS ENDED JUNE 30, 2001**

	Issuer/ Guarantor Parent	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
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Net sales	\$	\$	31,382	\$	21,741	\$	(12,553)	\$	40,570	
Cost of sales			23,629		17,246		(12,553)		28,322	
<hr/>										
Gross profit			7,753		4,495				12,248	
Selling, general and administrative expenses		112	12,456		2,972		25		15,565	
Other operating income			332						332	
<hr/>										
Income (loss) from operations		(112)	(4,371)		1,523		(25)		(2,985)	
Interest expense		(5,123)	(247)		(2)				(5,372)	
Interest income					2				2	
<hr/>										
Income (loss) before provision (benefit) for income taxes		(5,235)	(4,618)		1,523		(25)		(8,355)	
Provision (benefit) for income taxes		(1,102)	(1,215)		228				(2,089)	
<hr/>										
Net income (loss)		(4,133)	(3,403)		1,295		(25)		(6,266)	
Preferred stock dividends accrued		823							823	
<hr/>										
Net income (loss) applicable to common stockholders	\$	(4,956)	\$	(3,403)	\$	1,295	\$	(25)	\$	(7,089)

**SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
THREE MONTHS ENDED JUNE 30, 2000**

	Issuer/ Guarantor Parent	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated				
Net sales	\$	\$	36,628	\$	23,346	\$	(12,833)	\$	47,141
Cost of sales			28,141		19,407		(12,833)		34,715
<hr/>									
Gross profit			8,487		3,939		-		12,426
Selling, general and administrative expenses		112	12,561		3,424		-		16,097
Other operating income			451						451
<hr/>									
Income (loss) from operations		(112)	(3,623)		515		-		(3,220)
Interest expense		(4,893)	(608)		(12)				(5,513)
Interest income			6		6				12
<hr/>									

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Income (loss) before provision (benefit) for income taxes	(5,005)	(4,225)	509	-	(8,721)
Provision (benefit) for income taxes	268	(2,653)	199		(2,186)
Net income (loss)	(5,273)	(1,572)	310	-	(6,535)
Preferred stock dividends accrued	735				735
Net income (loss) applicable to common stockholders	\$ (6,008)	\$ (1,572)	310 \$	- \$	(7,270)

**SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 2001**

	Issuer/ Guarantor Parent	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$	\$ 63,760	\$ 45,227	\$ (26,710)	82,277
Cost of sales		50,171	36,755	(26,710)	60,216