

SYRATECH CORP
Form 10-Q
August 14, 2003

DRAFT

8/11/03

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, 2003

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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)

**175 McClellan Highway
East Boston, Massachusetts**
(Address of principal executive office)

13-3354944

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

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

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subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act.) YES NO

Number of Shares of Common Stock, Par Value \$0.01 per share, outstanding at June 30, 2003 - 3,784,018

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SYRATECH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	June 30, 2003 (Unaudited)	December 31, 2002
ASSETS		
Current assets:		
Cash and equivalents	\$ 707	\$ 1,399
Accounts receivable, net	20,719	51,582
Inventories	69,591	58,198
Deferred income taxes	16,264	20,649
Prepaid expenses and other	3,313	2,627
Assets held for sale		3,395
Total current assets	110,594	137,850
Property, plant and equipment, net	37,057	59,742
Other assets, net	3,576	5,154
Total	\$ 151,227	\$ 202,746
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Revolving loan facilities and notes payable	\$ 18,624	\$ 23,383
Accounts payable	8,849	8,107
Accrued expenses	8,537	11,887
Accrued interest	2,761	3,586
Accrued compensation	1,749	3,529
Accrued advertising	3,188	3,945
Deferred gain	1,420	
Income taxes payable		32
Liabilities held for sale		645
Total current liabilities	45,128	55,114
Long - term debt	118,271	153,584
Deferred income taxes	8,434	15,434
Pension liability	2,799	2,674
Long-term deferred gain	3,829	
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 \$18,483 and \$16,419 in 2003 and 2002, respectively)	36,483	34,419
	38	38

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Common stock, \$.01 par value, 20,000,000 shares authorized; 3,784,018 shares issued and outstanding			
Deficit	(63,442)		(58,392)
Accumulated other comprehensive loss	(313)		(125)
Total stockholders' equity	(27,234)		(24,060)
Total	\$ 151,227	\$	202,746

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 ,	
	2003	2002	2003	2002
Net sales	\$ 35,718	\$ 39,040	\$ 76,391	\$ 77,291
Cost of sales	25,311	27,753	55,119	55,093
Gross profit	10,407	11,287	21,272	22,198
Selling, general and administrative expenses	14,012	15,358	27,522	30,504
Income (loss) from continuing operations	(3,605)	(4,071)	(6,250)	(8,306)
Interest expense	(3,910)	(4,877)	(8,149)	(9,788)
Interest income			1	
Other income (Note 7)	406		9,446	1,236
Income (loss) from continuing operations before provision (benefit) for income taxes	(7,109)	(8,948)	(4,952)	(16,858)
Provision (benefit) for income taxes	(2,900)	(2,265)	(2,020)	(4,077)
Income (loss) from continuing operations before cumulative effect of a change in accounting principle	(4,209)	(6,683)	(2,932)	(12,781)
Discontinued Operations:				
Loss from operations of discontinued subsidiaries		(112)	(53)	(241)
Net income (loss) before cumulative effect of a change in accounting principle	(4,209)	(6,795)	(2,985)	(13,022)
Cumulative effect of a change in accounting principle				(6,225)
Net income (loss)	(4,209)	(6,795)	(2,985)	(19,247)
Preferred stock dividends accrued	1,033	923	2,065	1,844
Net income (loss) applicable to common stockholders	\$ (5,242)	\$ (7,718)	\$ (5,050)	\$ (21,091)
Basic and diluted income (loss) per share:				
Income (loss) from continuing operations before cumulative effect of a change in accounting principle	\$ (1.11)	\$ (1.77)	\$ (0.77)	\$ (3.38)
Loss from operations of discontinued subsidiaries		(0.03)	(0.01)	(0.05)

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Cumulative effect of change in accounting principle					(1.65)
Preferred stock dividends accrued	(0.28)	(0.24)	(0.55)	(0.49)	
Net income (loss) per common share	\$ (1.39)	\$ (2.04)	\$ (1.33)	\$ (5.57)	
Weighted average number of shares outstanding	3,784	3,784	3,784	3,784	

See notes to condensed consolidated financial statements.

SYRATECH CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	Six Months Ended June 30,	
	2003	2002
Cash flows from operating activities:		
Net income (loss)	\$ (2,985)	\$ (19,247)
Less net loss from discontinued operations	53	241
Less effect of accounting change		6,225
Income (loss) from continuing operations	(2,932)	(12,781)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) continuing operations:		
Depreciation and amortization	4,567	4,708
Deferred income taxes	(2,615)	(4,588)
Gain on extinguishment of debt before income taxes	(9,446)	(1,236)
Gains on disposal of assets including amortization	(884)	
Pension liability	125	(489)
Changes in assets and liabilities:		
Accounts receivable	30,863	28,291
Inventories	(11,393)	(19,208)
Prepaid expenses and other	(732)	(1,619)
Accounts payable and accrued expenses	(5,971)	(4,505)
Income taxes payable	(32)	282
Net cash provided by (used in) operating activities from continuing operations	1,550	(11,145)
Net cash provided by (used in) operating activities from discontinued operations	(53)	(763)
Net cash provided by (used in) operating activities	1,497	(11,908)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,100)	(1,478)
Proceeds from disposal of assets	16,805	
Other	(39)	5
Net cash provided by (used in) investing activities from continuing operations	15,666	(1,473)
Net cash provided by investing activities from discontinued operations	2,750	
Net cash provided by (used in) investing activities	18,416	(1,473)
Cash flows from financing activities:		
Change in revolving loan facilities and notes payable	(4,610)	11,350
Change in outstanding Senior Notes & Loan	(15,724)	(1,203)
Repayments of Promissory Note		(82)
Deferred financing costs and other	(83)	(330)
Net cash provided by (used in) financing activities from continuing operations	(20,417)	9,735

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Effect of exchange rate changes	(188)		
Net increase (decrease) in cash and equivalents	(692)		(3,646)
Cash and equivalents, beginning of period	1,399		4,602
Cash and equivalents, end of period	\$ 707	\$	956

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 2003 presentation. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's 2002 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. DISCONTINUED OPERATION

In December 2002 the Company formalized its decision to offer for sale its indirect wholly owned subsidiary, C.J. Vander Ltd. and its subsidiaries. The Company adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144) as of January 1, 2002. Accordingly, results of this operation have been classified as discontinued and prior periods have been restated. On March 21, 2003 the Company through an indirect wholly-owned subsidiary sold C. J. Vander Ltd. and its subsidiaries to HLW 179 Limited, a company led by the existing management of C. J. Vander Ltd. Proceeds of the sale net of expected selling costs were approximately \$2,750. In connection with the sale, two subsidiaries of the Company entered into agreements to supply certain products to the new company and one of its subsidiaries. The Company recognized a one-time charge of \$5,305 to reduce this business to fair value less costs to sell which was recorded in December 2002. During the six months ended June 30, 2003 net loss from discontinued operations was \$53.

Net sales and net loss from discontinued operations are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net sales	\$	\$ 1,721	\$ 1,675	\$ 3,411
Net loss from discontinued operations	\$	\$ (112)	\$ (53)	\$ (241)

3. ASSET SALE

On January 15, 2003, the Company through an indirect wholly-owned subsidiary sold its warehouse property in Mira Loma CA (the Property) to Industrial Developments International, Inc. (Buyer). The purchase price of \$26,750 was partially paid by the Buyer 's assumption of \$9,787 of the Company 's indebtedness related to the Property and the remainder was paid in cash. Simultaneously with the sale of the Property, the Buyer leased the Property back to the Company. The lease agreement provides for gradual reductions in the square footage leased by the Company during its 66 month term. A gain of \$6,085 related to the sale of the Property will be recognized over the term of the lease. In the six months ended June 30, 2003, \$836 of the gain was recognized, and \$5,249 has been deferred to future periods, of which \$3,829 is classified as long term.

4. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	Six Months Ended June 30,	
	2003	2002
Cash paid during the period for:		
Interest	\$ 8,019	\$ 10,041
Income taxes	\$ 1,091	\$ 1,155
Supplemental schedule of non-cash financing activities:		
Accrued cumulative redeemable preferred stock dividends .	\$ 2,065	\$ 1,844

5. INVENTORIES

Inventories consisted of the following:

	June 30, 2003	December 31, 2002
Raw materials	\$ 9,710	\$ 7,993
Work-in-process	6,311	2,219
Finished goods	53,570	47,986
Total	\$ 69,591	\$ 58,198

6. INCOME TAXES

The provision for income taxes for the six month period ended June 30, 2003 has been computed using the estimated effective full year tax rate of 40.8%. The tax rate used for the six month period ending June 30, 2002 was 24.2%. The rate increase is due to taxable gains on the extinguishment of debt and the sale of the Company's Mira Loma, California facility recorded during the period, which changed the mix of foreign and domestic taxable income.

7. REVOLVING LOAN FACILITIES AND NOTES PAYABLE

The Company has a Senior Revolving Credit Facility (the Revolving Credit Facility) dated April 16, 1997 (amended effective as of July 31, 1997, December 31, 1997, March 30, 1998, December 31, 1998, March 26, 2001, August 13, 2001, March 22, 2002, November 12, 2002, December 18, 2002 and March 20, 2003). The obligations of the Company under the Revolving Credit 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 its foreign subsidiary's outstanding capital stock. The Revolving Credit Facility as amended, provides for borrowings of up to \$86,364 with borrowing capacity related to inventory limited to a maximum of \$55,000. The Revolving Credit Facility expires on April 15, 2004. The December 18, 2002 amendment provides for repurchases of the Company's 11% Senior Notes due 2007 (the Senior Notes) subject to approval of each transaction by the administrative agent for the lenders. The Company must maintain minimum EBITDA (i) for the period of two consecutive Fiscal Quarters ending June 30, 2003, of negative \$9,938, (ii) for the period of three consecutive Fiscal Quarters ending September 30, 2003, of \$5,000, and (iii) for the period of four consecutive Fiscal Quarters ending December 31, 2003 and on the last day of each Fiscal Quarter thereafter of \$15,000. Borrowings made under the Revolving Credit Facility, other than for repurchases of Senior Notes, 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. Borrowings made under the Revolving Credit Facility for the repurchase of Senior Notes bear interest at a rate equal to, at the Company's option, the Eurodollar Rate plus 500 basis points or the Prime Rate plus 225 basis points. As amended, the Company must maintain minimum borrowing availability of \$10,000 until October 15, 2003, \$11,250 on October 16, 2003 increasing gradually to \$20,000 for the period from December 3, 2003 through January 2004, \$25,000 during February and March of 2004 and \$10,000 thereafter.

At June 30, 2003, there was \$18,624 outstanding under the Revolving Credit Facility bearing interest at the Prime Rate plus 100 basis points. The Company is in compliance with the covenants, as amended, as of June 30, 2003. Availability under the Revolving Credit Facility, net of outstanding letters of credit and minimum availability requirements, was \$10,999 at June 30, 2003.

At June 30, 2003, the Company also had debt financing with third parties of \$118,271 of 11% Senior Notes which are due April 15, 2007 and require interest payments to be made semi-annually on April 15 and October 15. The Senior Notes are general unsecured obligations of the Company and rank pari passu in right of payment with all current and future unsubordinated indebtedness of the Company, including borrowings under the Revolving Credit Facility. However, all borrowings under the Revolving Credit Facility are secured by a first priority lien on the accounts receivable and inventory of the Company and its domestic subsidiaries (Guarantor Subsidiaries) but not of its foreign subsidiaries (See Note 13). Consequently, the obligations of the Company under the Senior Notes are effectively subordinated to its obligations under the Revolving Credit Facility to the extent of such assets. The Senior Notes became redeemable, in whole or in part, at the Company's option after April 15, 2002.

During the three month period ended June 30, 2003, the Company purchased, on the open market, outstanding Senior Notes with a face value of \$1,229, resulting in a pre-tax gain of approximately \$406. For the six month period ended June 30, 2003, the Company's total purchases of its Senior Notes were \$25,675 at face value, resulting in a pre-tax gain of \$9,446.

In May 2003, the Company renewed its Wallace International de Puerto Rico, Inc. credit facility. The renewed facility has been reduced from \$1,000 to \$500 and expires on January 30, 2004. 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 200 basis points. There were no borrowings outstanding under this credit facility at June 30, 2003.

8. COMPREHENSIVE INCOME/(LOSS)

Comprehensive income (loss) is comprised of net income, foreign currency translation adjustments, and pension adjustments related to recording the minimum pension liability and maximum intangible asset. Accumulated other comprehensive income by component is as follows:

	June 30, 2003	December 31, 2002
Translation adjustment	\$ (269)	\$ (81)
Minimum pension adjustment	(44)	(44)
Total accumulated other comprehensive income	\$ (313)	\$ (125)

9. ACCOUNTING PRONOUNCEMENTS

In April 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies financial accounting and reporting for hedging activities and derivative instruments including certain derivative instruments embedded in other contracts. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and is not expected to have a material impact on the Company's financial position or results of operations.

10. 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,	
	2003	2002	2003	2002
Tabletop and Giftware	\$ 31,433	\$ 33,798	\$ 66,181	\$ 67,894
Seasonal	4,285	5,242	10,210	9,397
Total	\$ 35,718	\$ 39,040	\$ 76,391	\$ 77,291

11. EMPLOYEE BENEFIT PLANS

At June 30, 2003, the Company had employment agreements with certain officers and employees for terms ranging from one to three years. These agreements provide for minimum annual salaries aggregating \$2,624 and certain other benefits.

12. SUBSEQUENT EVENT

In July, 2003, Syratech began the process of designing and implementing the SAP enterprise resource planning system to optimize its supply chain, optimize inventory, modernize operations and logistics, and improve communications and information flow. The SAP implementation will involve a major investment of time by key personnel during 2003 and 2004 and will represent a substantial portion of the Company's capital expenditures. Total expenditures for capital and expense related to the SAP implementation are estimated to be between \$5 and \$6 million during the next twelve months.

13. SUPPLEMENTAL CONSOLIDATING FINANCIAL STATEMENTS

The following supplemental consolidating financial statements as of June 30, 2003 and December 31, 2002, and for each of the three month and six month periods ended June 30, 2003 and 2002, present separate financial information for the Issuer/Guarantor Parent, the Guarantor Subsidiaries, and the Non-Guarantor Subsidiaries. Certain prior year amounts have been reclassified to conform with the 2003 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, 2003

	Issuer/ Guarantor Parent	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and equivalents	\$	\$ 189	\$ 518	\$	\$ 707
Accounts receivable, net		18,164	2,555		20,719
Inventories		69,285	306		69,591
Deferred income taxes	(1,514)	17,778			16,264
Prepaid expenses and other	37	3,076	200		3,313
Total current assets	(1,477)	108,492	3,579		110,594
Property, plant and equipment, net		36,949	108		37,057
Other assets, net	3,891	791		(1,106)	3,576
Investment	49,665	26,903		(76,568)	
Total	\$ 52,079	\$ 173,135	\$ 3,687	\$ (77,674)	\$ 151,227
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Revolving loan facilities and notes payable	\$	\$ 18,624	\$	\$	\$ 18,624
Accounts payable		4,108	4,741		8,849
Accrued expenses	39	6,297	63	2,138	8,537
Accrued interest	3,832	(1,071)			2,761
Accrued compensation		1,366	383		1,749
Accrued advertising		3,188			3,188
Deferred gain		1,420			1,420
Income taxes payable	(6,083)	5,702	(196)	577	
Total current liabilities	(2,212)	39,634	4,991	2,715	45,128
Long -term debt	165,000			(46,729)	118,271
Deferred income taxes	5,515	2,919			8,434
Pension liability and other long-term liabilities		2,799			2,799
Deferred Gain		3,829			3,829
Intercompany (receivable) payable	22,889	18,430	(40,290)	(1,029)	
Stockholders equity (deficit)	(139,113)	105,524	38,986	(32,631)	(27,234)
Total	\$ 52,079	\$ 173,135	\$ 3,687	\$ (77,674)	\$ 151,227

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEETS

December 31, 2002

	Issuer/ Guarantor Parent	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and equivalents	\$	\$ 331	\$ 1,068	\$	\$ 1,399
Accounts receivable, net		49,167	2,415		51,582
Inventories		57,729	428	41	58,198
Deferred income taxes	5,829	14,820			20,649
Prepaid expenses and other	113	2,235	279		2,627
Assets held for sale			3,395		3,395
Total current assets	5,942	124,282	7,585	41	137,850
Property, plant and equipment, net		59,653	140	(51)	59,742
Other assets, net	4,737	1,018		(601)	5,154
Investment	49,665	11,978		(61,643)	
Total	\$ 60,344	\$ 196,931	\$ 7,725	\$ (62,254)	\$ 202,746
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Revolving loan facilities and notes payable	\$	\$ 23,383	\$	\$	\$ 23,383
Accounts payable		5,211	2,896		8,107
Accrued expenses	40	10,746	1,101		11,887
Accrued interest	3,832	(246)			3,586
Accrued compensation		2,774	755		3,529
Accrued advertising		3,945			3,945
Income taxes payable	(6,083)	3,496	(90)	2,709	32
Liabilities held for sale			645		645
Total current liabilities	(2,211)	49,309	5,307	2,709	55,114
Long-term debt	165,000	9,638		(21,054)	153,584
Deferred income taxes	5,515	9,919			15,434
Pension liability		2,674			2,674
Intercompany (receivable) payable	13,570	22,406	(34,584)	(1,392)	
Stockholders' equity (deficit)	(121,530)	102,985	37,002	(42,517)	(24,060)
Total	\$ 60,344	\$ 196,931	\$ 7,725	\$ (62,254)	\$ 202,746

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2003

	Issuer/ Guarantor Parent	Non Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$	\$ 38,823	\$ 7,476	\$ (10,581)	\$ 35,718
Cost of sales		31,018	4,874	(10,581)	25,311
Gross profit		7,805	2,602		10,407
Selling, general and administrative expenses	112	11,961	1,939		14,012
Income (loss) from continuing operations	(112)	(4,156)	663		(3,605)
Interest expense	(4,793)	883			(3,910)
Interest income					0
Other income	406				406
Income (loss) from continuing operations before provision (benefit) for income taxes	(4,499)	(3,273)	663		(7,109)
Provision (benefit) for income taxes	(788)	(2,219)	107		(2,900)
Income (loss) from continuing operations	(3,711)	(1,054)	556		(4,209)
Net income (loss)	(3,711)	(1,054)	556		(4,209)
Preferred stock dividends accrued	1,033				1,033
Net income (loss) applicable to common stockholders.	\$ (4,744)	\$ (1,054)	\$ 556	\$	\$ (5,242)

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2002

	Issuer/ Guarantor Parent	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$	\$ 31,110	\$ 20,574	\$ (12,644)	\$ 39,040
Cost of sales		23,226	17,171	(12,644)	27,753
Gross profit		7,884	3,403		11,287
Selling, general and administrative expenses	112	12,891	2,355		15,358
Income (loss) from continuing operations	(112)	(5,007)	1,048		(4,071)
Interest expense	(5,029)	4	148		(4,877)
Income (loss) from continuing operations before provision (benefit) for income taxes	(5,141)	(5,003)	1,196		(8,948)
Provision (benefit) for income taxes	(1,569)	(858)	162		(2,265)
Income (loss) from continuing operations	(3,572)	(4,145)	1,034		(6,683)
Discontinued Operations:					
Loss from operations of discontinued subsidiaries			(112)		(112)
Net income (loss)	(3,572)	(4,145)	922		(6,795)
Preferred stock dividends accrued	923				923
Net income (loss) applicable to common stockholders	\$ (4,495)	\$ (4,145)	\$ 922	\$	\$ (7,718)

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 2003

	Issuer/ Guarantor Parent	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$	\$ 80,998	\$ 15,805	\$ (20,412)	\$ 76,391
Cost of sales		65,289	10,242	(20,412)	55,119
Gross profit		15,709	5,563		21,272
Selling, general and administrative expenses	225	23,294	4,003		27,522
Income (loss) from continuing operations	(225)	(7,585)	1,560		(6,250)
Interest expense	(10,014)	1,783	82		(8,149)
Interest income		1			1
Other income	9,446				9,446
Income (loss) from continuing operations before provision (benefit) for income taxes	(793)	(5,801)	1,642		(4,952)
Provision (benefit) for income taxes	7,343	(9,596)	233		(2,020)
Income (loss) from continuing operations	(8,136)	3,795	1,409		(2,932)
Discontinued Operations:					
Loss from operations of discontinued subsidiaries		(21)	(32)		(53)
Net income (loss)	(8,136)	3,774	1,377		(2,985)
Preferred stock dividends accrued	2,065				2,065
Net income (loss) applicable to common stockholders	\$ (10,201)	\$ 3,774	\$ 1,377	\$	\$ (5,050)

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 2002

	Issuer/ Guarantor Parent	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$	\$ 62,494	\$ 38,782	\$ (23,985)	\$ 77,291
Cost of sales		46,645	32,433	(23,985)	55,093
Gross profit		15,849	6,349		22,198
Selling, general and administrative expenses	225	25,809	4,470		30,504
Income (loss) from continuing operations	(225)	(9,960)	1,879		(8,306)
Interest expense	(10,215)	135	292		(9,788)
Interest income					
Other income	1,236				1,236
Income (loss) from continuing operations before provision (benefit) for income taxes	(9,204)	(9,825)	2,171		(16,858)
Provision (benefit) for income taxes	(2,219)	(2,159)	301		(4,077)
Income (loss) from continuing operations before cumulative effect of a change in accounting principle	(6,985)	(7,666)	1,870		(12,781)
Discontinued Operations:					
Loss from operations of discontinued subsidiaries			(241)		(241)
Net income (loss)	(6,985)	(7,666)	1,629		(13,022)
Cumulative effect of a change in accounting principle		(6,225)			(6,225)
Net income (loss)	(6,985)	(13,891)	1,629		(19,247)
Preferred stock dividends accrued	1,844				1,844
Net income (loss) applicable to common stockholders	\$ (8,829)	\$ (13,891)	\$ 1,629	\$	\$ (21,091)

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2003

	Issuer/ Guarantor Parent	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net income (loss)	\$ (8,136)	\$ 3,774	\$ 1,377	\$	\$ (2,985)
Less net loss from discontinued operations		21	32		53
Income (loss) from continuing operations	(8,136)	3,795	1,409		(2,932)
Adjustments to reconcile (loss) income from continuing operations to net cash provided by (used in) continuing operations :					
Depreciation and amortization	929	3,588	50		4,567
Deferred income taxes	7,343	(9,958)			(2,615)
Gain on disposal of assets		(884)			(884)
Gain on extinguishment of debt before income taxes	(9,446)				(9,446)
Pension liability		125			125
Increase (decrease) in assets and liabilities:					
Accounts receivable		31,003	(140)		30,863
Inventories		(11,515)	122		(11,393)
Prepaid expenses and other	76	(887)	79		(732)
Accounts payable and accrued expenses	(2)	(6,404)	435		(5,971)
Income taxes payable		74	(106)		(32)
Intercompany account	9,319	(3,615)	(5,704)		
Net cash provided by (used in) operating activities from continuing operations	83	5,322	(3,855)		1,550
Net cash provided by (used in) operating activities from discontinued operations		(3,566)	3,513		(53)
Net cash provided by (used in) operating activities	83	1,756	(342)		1,497
Cash flows from investing activities:					
Purchases of property, plant and equipment		(1,080)	(20)		(1,100)
Proceeds from disposal of assets		16,805			16,805
Other		(39)			(39)
Net cash provided by (used in) investing activities from continuing operations		15,686	(20)		15,666
Net cash provided by investing activities from discontinued operations		2,750			2,750
Net cash provided by (used in) investing activities		18,436	(20)		18,416
Cash flows from financing activities:					
Change in revolving loan facilities		(4,610)			(4,610)
Change in outstanding Senior Notes & Loan		(15,724)			(15,724)
Repayments of Promissory Note					

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Deferred financing costs and other	(83)			(83)
Net cash provided by (used in) financing activities from continuing operations	(83)	(20,334)		(20,417)
Comprehensive loss & exchange rate changes			(188)	(188)
Net increase (decrease) in cash and equivalents		(142)	(550)	(692)
Cash and equivalents, beginning of the period		331	1,068	1,399
Cash and equivalents, end of the period	\$	\$	189 \$	518 \$
				\$
				707

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2002

	Issuer/ Guarantor Parent	Non Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net income (loss)	\$ (7,492)	\$ (13,384)	\$ 1,629	\$	\$ (19,247)
Less net loss from discontinued operations			241		241
Less effect of accounting change		5,825	400		6,225
Income (loss) from continuing operations	(7,492)	(7,559)	2,270		(12,781)
Adjustments to reconcile (loss) income from continuing operations to net cash provided by (used in) continuing operations :					
Depreciation and amortization	891	3,730	87		4,708
Deferred income taxes	(1,712)	(2,876)			(4,588)
Gain on extinguishment of debt before income taxes	(1,236)				(1,236)
Pension liability		(489)			(489)
Increase (decrease) in assets and liabilities:					