SYRATECH CORP
Form 10-Q
November 14, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2001

o **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	**13-3354944**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

175 McClellan Highway East Boston, Massachusetts	**02128-9114**

(Address of principal executive office) (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 September 30, 2001-3,784,018

INDEX

SYRATECH CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(in thousands, except share data)

	September 30, 2001	December 31, 2000
ASSETS		
Current assets:		
Cash and equivalents	$ 1,975	$ 3,442
Accounts receivable, net	79,205	103,637
Inventories	111,239	92,749
Deferred income taxes	18,663	14,156
Prepaid expenses and other	3,226	3,318
Total current assets	214,308	217,302
Property, plant and equipment, net	70,080	71,776
Purchase price in excess of net assets acquired, net	6,310	6,566
Other assets, net	5,177	5,446
Total	$ 295,875	$ 301,090
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Revolving loan facilities and notes payable	$ 54,095	$ 67,318
Accounts payable	26,271	13,642
Accrued expenses	6,609	15,178
Accrued interest	7,877	3,743
Accrued compensation	2,705	3,421
Accrued advertising	3,298	3,610
Income taxes payable	1,268	289
Total current liabilities	102,123	107,201
Long - term debt	158,371	148,550
Deferred income taxes	20,548	20,547
Pension liability	2,612	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 $11,907 and $9,438 in 2001 and 2000, respectively	29,907	27,438
Common stock, $.01 par value, 20,000,000 shares authorized; 3,784,018 shares issued and outstanding	38	38
Deficit	(16,348)	(4,331)
Accumulated other comprehensive loss	(1,376)	(921)
Total stockholders' equity	12,221	22,224
Total	$ 295,875	$ 301,090

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 September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Net sales (1)	$ 104,008	$ 119,806	$ 186,285	$ 222,274
Cost of sales	73,663	83,457	133,879	158,635
Gross profit	30,345	36,349	52,406	63,639
Selling, general and administrative expenses	18,037	21,073	49,853	55,790
Other operating income	455	431	1,231	1,301
Income from operations	12,763	15,707	3,784	9,150
Interest expense	(5,826)	(6,371)	(16,544)	(17,340)
Interest income	23	21	29	47
Income (loss) before provision (benefit) for income taxes	6,960	9,357	(12,731)	(8,143)
Provision (benefit) for income taxes	1,740	2,345	(3,183)	(2,036)
Net income (loss)	5,220	7,012	(9,548)	(6,107)
Preferred stock dividends accrued	823	735	2,469	2,205
Net income (loss) applicable to common stockholders	$ 4,397	$ 6,277	$ (12,017)	$ (8,312)
Basic and diluted income (loss) per share:				
Net income (loss) per common share	$ 1.16	$ 1.66	$ (3.18)	$ (2.20)
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 sales decrease.

See notes to consolidated financial statements.

SYRATECH CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	Nine Months Ended September 30, 2001		2000	
Cash flows from operating activities:				
Net loss	$	(9,548)	$	(6,107)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization		7,312		6,639
Deferred income taxes		(4,506)		(3,522)
Loss (gain) on disposal of assets		55		(17)
Pension liability		44		(554)
Changes in assets and liabilities:				
Accounts receivable		24,432		(24,083)
Inventories		(18,490)		(49,487)
Prepaid expenses and other		92		(243)
Accounts payable and accrued expenses		7,166		25,755
Income taxes payable		979		543
Net cash provided by (used in) operating activities		7,536		(51,076)
Cash flows from investing activities:				
Purchases of property, plant and equipment		(4,389)		(4,783)
Proceeds from disposal of assets		191		278
Other		(24)		(83)
Net cash used in investing activities		(4,222)		(4,588)
Cash flows from financing activities:				
Change in revolving loan facilities and notes payable		(3,402)		60,357
Deferred financing costs and other		(1,379)		(910)
Net cash provided by (used in) financing activities		(4,781)		59,447
Net increase (decrease) in cash and equivalents		(1,467)		3,783
Cash and equivalents, beginning of period		3,442		1,451
Cash and equivalents, end of period	$	1,975	$	5,234

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 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

	Nine Months Ended September 30,			
	2001		2000	
Cash paid during the period for:				
Interest	$	11,123	$	11,494
Income taxes	$	860	$	925
Supplemental schedule of non-cash financing activities:				
Accrued cumulative redeemable preferred stock dividends	$	2,469	$	2,205

3. INVENTORIES

Inventories consisted of the following:

	September 30, 2001		December 31, 2000	
Raw materials	$	10,533	$	10,757
Work-in-process		6,032		8,062

Finished goods		94,674		73,930
Total	$	111,239	$	92,749

4. INCOME TAXES

The benefit for income taxes for the three and nine month periods ended September 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. REVOLVING LOAN FACILITIES AND NOTES PAYABLE

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 $18,000 at the quarter ended September 30, 2001 and $15,000 at quarters ended on or after December 31, 2001 was established; and the Company is required to maintain excess availability of $15,000 beginning August 16, 2001 to September 30, 2001, and at least $10,000 thereafter. During February and March of 2002, the minimum availability requirement is $25,000. The Company is in compliance with the covenants, as amended, as of September 30, 2001 and for the quarter then ended. At September 30, 2001, availability under the Revolving Credit Facility, net of outstanding letters of credit, was $38,700, resulting in borrowing capacity of $23,700 net of the $15,000 excess availability requirement noted above.

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 September 30, 2001.

As of September 28, 2001, the Company's C. J. Vander Ltd. subsidiary renewed its £250 overdraft facility. The renewed facility expires on April 30, 2002.

6. COMPREHENSIVE INCOME

Comprehensive income consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	**2000**	**2001**	**2000**
Net income (loss) applicable to common stockholders	$ 4,397	$ 6,277	$ (12,017)	$ (8,312)
Other comprehensive income (loss):				
Minimum pension liability adjustments	(98)		(295)	
Foreign currency translation adjustments	400	(494)	(160)	(1,167)
Comprehensive income (loss)	$ 4,699	$ 5,783	$ (12,472)	$ (9,479)

7. ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The standard requires that all companies record derivatives in the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The Company adopted SFAS No. 133, as required, and such adoption did not have a material impact on the consolidated financial statements.

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 nine months ended September 30, 2001 aggregated $256. 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.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of Accounting Principles Board ("APB") Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that opinion). SFAS No. 144 requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and broadens the presentation of discontinued operations to include more disposal transactions than were included under the previous standards. The Company is required to implement SFAS No. 144 on January 1, 2002, and it has not determined the impact, if any, that this statement will have on its consolidated financial position or results of operations.

8. 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 September 30,		Nine Months Ended September 30,	
	2001	**2000**	**2001**	**2000**
Tabletop and Giftware	$ 74,381	$ 72,854	$ 152,701	$ 154,759
Seasonal	29,627	46,952	33,584	67,515
Total	$ 104,008	$ 119,806	$ 186,285	$ 222,274

9. SUBSEQUENT EVENT

On November 2, 2001, the Company, through a wholly-owned subsidiary, purchased an aggregate of $704 of its outstanding Senior Notes on the open market. An extraordinary gain net of applicable taxes of approximately $269 will be recorded in the fourth quarter.

10. SUPPLEMENTAL CONSOLIDATING FINANCIAL STATEMENTS

The following supplemental consolidating financial statements as of September 30, 2001 and December 31, 2000, and the three and nine month periods ended September 30, 2001 and September 30, 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

September 30, 2001

	Issuer/ Guarantor Parent	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and equivalents	$	$ 207	$ 1,768	$	$ 1,975
Accounts receivable, net		63,865	15,340		79,205
Inventories		106,707	4,491	41	111,239
Deferred income taxes	7,827	10,836			18,663
Prepaid expenses and other	113	2,660	453		3,226
Total current assets	7,940	184,275	22,052	41	214,308
Property, plant and equipment, net		67,326	2,801	(47)	70,080
Purchase price in excess of net assets acquired		5,860		450	6,310
Other assets, net	5,240	431		(494)	5,177
Investment	49,665	9,793	-	(59,458)	-
Total	$ 62,845	$ 267,685	$ 24,853	$ (59,508)	$ 295,875
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Revolving loan facilities and notes payable	$	$ 54,095	$	$	$ 54,095
Accounts payable		10,102	16,169		26,271
Accrued expenses	41	6,187	381		6,609
Accrued interest	8,369	(115)		(377)	7,877
Accrued compensation		2,499	206		2,705
Accrued advertising		3,298			3,298
Income taxes payable	(9,893)	7,360	1,268	2,533	1,268
Total current liabilities	(1,483)	83,426	18,024	2,156	102,123
Long -term debt	165,000	9,821		(16,450)	158,371
Deferred income taxes	10,174	10,374			20,548
Pension liability and other long-term liabilities		2,612			2,612
Intercompany (receivable) payable	(3,784)	31,705	(29,690)	1,769	
Stockholders' equity (deficit)	(107,062)	129,747	36,519	(46,983)	12,221
Total	$ 62,845	$ 267,685	$ 24,853	$ (59,508)	$ 295,875

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEETS

December 31, 2000

	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	41	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)	71,776
Purchase price in excess of net assets acquired		6,066		500	6,566
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					