

SYRATECH CORP  
Form 10-Q  
August 14, 2002

**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 June 30, 2002

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

**Syrtech Corporation**

(Exact name of registrant as specified in its charter)

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**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  NO

Number of Shares of Common Stock, Par Value \$0.01 per share, outstanding at June 30, 2002 - 3,784,018

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## PART 1 - FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## SYRATECH CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(in thousands, except share data)

	June 30, 2002	December 31, 2001
<b>ASSETS</b>		
Current assets:		
Cash and equivalents	\$ 1,206	\$ 5,242
Accounts receivable, net	30,183	57,530
Inventories	94,479	74,949
Deferred income taxes	22,436	17,848
Prepaid expenses and other	4,357	2,665
Total current assets	152,661	158,234
Property, plant and equipment, net	65,863	68,195
Purchase price in excess of net assets acquired, net		6,225
Other assets, net	4,344	4,717
Total	\$ 222,868	\$ 237,371
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Revolving loan facilities and notes payable	\$ 28,345	\$ 16,995
Accounts payable	12,449	10,976
Accrued expenses	6,366	8,079
Accrued interest	3,495	4,359
Accrued compensation	1,881	4,181
Accrued advertising	2,548	3,263
Income taxes payable	411	129
Total current liabilities	55,495	47,982
Long - term debt	155,052	157,634
Deferred income taxes	18,818	18,818
Pension liability	2,320	2,809
Commitments and contingencies		
Stockholders equity:		
	32,574	30,731

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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 \$14,574 and \$12,731 in 2002 and 2001, respectively)

Common stock, \$.01 par value, 20,000,000 shares authorized; 3,784,018 shares issued and outstanding	38	38
Deficit	(40,183)	(19,092)
Accumulated other comprehensive loss	(1,246)	(1,549)
Total stockholders equity	(8,817)	10,128
Total	\$ 222,868	\$ 237,371

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,	
	2002	2001	2002	2001
Net sales	\$ 40,761	\$ 40,570	\$ 80,702	\$ 82,277
Cost of sales	29,186	28,322	57,934	60,216
Gross profit	11,575	12,248	22,768	22,061
Selling, general and administrative expenses	15,607	15,565	31,017	31,816
Other operating income		332		776
Loss from operations	(4,032)	(2,985)	(8,249)	(8,979)
Interest expense	(5,028)	(5,372)	(10,086)	(10,718)
Interest income		2		6
Loss before benefit for income taxes, extraordinary gain and cumulative effect of a change in accounting principle	(9,060)	(8,355)	(18,335)	(19,691)
Provision (benefit) for income taxes	(2,265)	(2,089)	(4,584)	(4,923)
Loss before extraordinary gain and cumulative effect of a change in accounting principle	(6,795)	(6,266)	(13,751)	(14,768)
Extraordinary gain on early extinguishment of debt, net of income taxes of \$507			729	
Cumulative effect of change in accounting principle			(6,225)	
Net loss	(6,795)	(6,266)	(19,247)	(14,768)
Preferred stock dividends accrued	923	823	1,844	1,646
Net loss applicable to common stockholders	\$ (7,718)	\$ (7,089)	\$ (21,091)	\$ (16,414)
Basic and diluted income (loss) per share				
Loss before extraordinary gain and cumulative effect of change in accounting principle	\$ (1.80)	\$ (1.65)	\$ (3.62)	\$ (3.91)
Extraordinary gain on early extinguishment of debt			0.19	
Cumulative effect of change in accounting principle			(1.65)	
Preferred stock dividends accrued	(0.24)	(0.22)	(0.49)	(0.43)
Net income (loss) per common share	\$ (2.04)	\$ (1.87)	\$ (5.57)	\$ (4.34)

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Weighted average number of shares outstanding	3,784	3,784	3,784	3,784
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See notes to consolidated financial statements.

## SYRATECH CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	Six Months Ended June 30,	
	2002	2001
Cash flows from operating activities		
Net loss	\$ (19,247)	\$ (14,768)
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation and amortization	4,782	4,860
Deferred income taxes	(4,588)	(5,484)
Gain on extinguishment of debt before income taxes	(1,236)	
Loss (gain) on disposal of assets	8	55
Pension liability	(489)	(163)
Cumulative effect of change in accounting principle	6,225	
Increase (decrease) in assets and liabilities		
Accounts receivable	27,347	65,410
Inventories	(19,530)	(21,495)
Prepaid expenses and other	(1,692)	(822)
Accounts payable and accrued expenses	(4,119)	(7,130)
Income taxes payable	282	182
Net cash from operating activities	(12,257)	20,645
Cash flows from investing activities		
Purchases of property, plant and equipment	(1,494)	(2,850)
Proceeds from disposal of assets		191
Other	5	(26)
Net cash from investing activities	(1,489)	(2,685)
Cash flows from financing activities		
Change in revolving loan facilities	11,350	(28,644)
Retirement of outstanding senior notes	(1,203)	
Proceeds from long-term debt		10,000
Repayments of long-term debt	(82)	(9)
Other	(355)	(1,194)
Net cash from financing activities	9,710	(19,847)
Net increase (decrease) in cash and equivalents	(4,036)	(1,887)
Cash and equivalents, beginning of period	5,242	3,442
Cash and equivalents, end of period	\$ 1,206	\$ 1,555

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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 2002 presentation. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's 2001 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,	
	2002	2001
Cash paid during the period for:		
Interest	\$10,041	\$9,954
Income taxes	\$1,155	\$780
Supplemental schedule of non-cash financing activities:		
Accrued cumulative redeemable preferred stock dividends	\$1,844	\$1,646

## 3. INVENTORIES

Inventories consisted of the following:

	June 30, 2002	December 31, 2001
Raw materials	\$ 9,524	\$ 7,543
Work-in-process	9,469	4,398
Finished goods	75,486	63,008

Total	\$	94,479	\$	74,949
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#### 4. INCOME TAXES

The benefit for income taxes for the six month periods ended June 30, 2002 and 2001 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 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, August 13, 2001 and March 22, 2002) which provides for \$110 million of borrowings, including a \$30 million sub-limit for the issuance of standby and commercial letters of credit. On March 22, 2002, the term of the Facility was extended for an additional year and the facility now expires on April 15, 2003. 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. Borrowings made under the Revolving Credit 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. The Revolving Credit Facility, as amended, contains customary covenants of the Company and the subsidiary borrowers, including but not limited to requiring minimum earnings before income taxes, depreciation, amortization, and certain adjustments (EBITDA), as defined, and limits on capital spending. The Company must maintain minimum availability requirements of \$25,000 during February and March of each year and minimum availability varying between \$13,300 and \$10,000 for the months from April through January (\$12,450 at June 30, 2002). The Company is in compliance with the covenants, as amended, as of June 30, 2002. Availability under the Revolving Credit Facility, net of outstanding letters of credit, was \$27,060 at June 30, 2002, resulting in additional borrowing capacity of \$14,610, net of the \$12,450 minimum excess availability requirement noted above.

During January 2002, the Company purchased \$2,500 of its outstanding 11% Senior Notes on the open market, resulting in an extraordinary gain of \$729 net of \$507 in income taxes.

On April 30, 2002, the Company renewed its Wallace International de Puerto Rico, Inc. \$1,000 credit facility. The renewed facility expires on March 15, 2003 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 \$250 at June 30, 2002.

On April 15, 2002, the Company's C. J. Vander Ltd. subsidiary renewed its £250 overdraft facility. The renewed facility expires on October 30, 2002. Borrowings made under the overdraft facility bear interest at the bank's base rate plus 1%. Availability under the overdraft facility was £82 at June 30, 2002.

**6. COMPREHENSIVE LOSS**

Comprehensive loss consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net loss applicable to common stockholders	\$ (7,718)	\$ (7,089)	\$ (21,091)	\$ (16,414)
Other comprehensive gain (loss):				
Minimum pension liability adjustments	109	(98)	219	(197)
Foreign currency translation adjustments	277	(430)	84	(560)
Comprehensive loss	\$ (7,332)	\$ (7,617)	\$ (20,788)	\$ (17,171)

**7. GOODWILL**

**The Company adopted** Financial Accounting Standard No. 142 - 66 Goodwill and Other Intangible Assets ( SFAS 142 ) as required in fiscal 2002. SFAS 142 provides a six-month transitional period from the effective date of adoption for the Company to perform an assessment of whether there is an indication that goodwill is impaired. To the extent that an indication of impairment exists, the Company must perform a second test to measure the amount of the impairment. The implementation of SFAS 142 resulted in the Company recording a one-time, non-cash, goodwill impairment charge of \$6,225 as of January 1, 2002. The impairment results from a change in the criteria for the measurement of impairments from an undiscounted to a discounted cash flow method. This charge reflects the cumulative effect of adopting the accounting change in the statement of operations, but had no impact on cash flows. The impaired goodwill was not deductible for taxes, and as a result, no tax benefit was recorded in relation to the charge. The Company recorded approximately \$341 of goodwill amortization in 2001. Under SFAS 142 goodwill amortization was not recorded during 2002. The Company has not recorded any other specifically identified intangible assets for its intellectual property which includes copyrights and trademarks.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Reported loss before extraordinary gain and cumulative effect of a change in accounting principle	\$ (6,795)	\$ (6,266)	\$ (13,751)	\$ (14,768)
Add back: goodwill amortization		86		171
Adjusted loss before extraordinary gain and cumulative effect of a change in accounting principle	\$ (6,795)	\$ (6,180)	\$ (13,751)	\$ (14,597)
Basic and diluted loss per share:				
Reported loss before extraordinary gain and cumulative effect of a change in accounting principle	\$ (1.80)	\$ (1.65)	\$ (3.62)	\$ (3.91)
Add back: goodwill amortization		0.02		0.05
Adjusted loss before extraordinary gain and cumulative effect of a change in accounting principle	\$ (1.80)	\$ (1.63)	\$ (3.62)	\$ (3.86)

**8. ACCOUNTING PRONOUNCEMENTS**

In June 2001, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standard ( SFAS ) No. 143, Accounting for Asset Retirement Obligations for fiscal years starting after June 15, 2002. This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company does not believe that the adoption of SFAS No. 143 will have a significant impact on its financial statements.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ( SFAS No. 144 ) . 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. SFAS 144 will be effective for fiscal years beginning after December 15, 2001. The Company adopted SFAS 144, as required, in the first quarter of 2002. The adoption of SFAS 144 did not have a significant impact on financial position or the results of operations.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements 4, 44 and 64, Amendment to FASB Statement 13, and Technical Corrections. One of the major changes of this statement is to change the accounting for the classification of gains and losses from the extinguishment of debt. Upon adoption, the Company will follow APB 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 in determining whether such extinguishment of debt may be classified as extraordinary. The provisions of this statement related to the rescission of FASB Statement 4 shall be applied in fiscal years beginning after May 15, 2002 with early application encouraged. The Company is currently evaluating the impact that adoption of SFAS No. 145 may have on its financial statement presentation.

In June 2002, the FASB issued SFAS 146, Accounting for Cost Associated with Exit or Disposal Activities . SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94 3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). . SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The Company believes that the adoption of SFAS No. 146 will not have a material impact on its financial statements.

**9.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:

<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>

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Tabletop and Giftware	\$	35,519	\$	33,912	\$	71,305	\$	74,119
Seasonal		5,242		6,658		9,397		8,158
Total	\$	40,761	\$	40,570	\$	80,702	\$	82,277

#### **10. EMPLOYEE BENEFIT PLANS**

At June 30, 2002, 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 \$2,910 and certain other benefits. In April 2002 the agreement with an officer was amended to extend the executive's term of full time employment an additional year until April 16, 2003. In May 2002, the Company and the Chairman of the Board, agreed that the maximum annual compensation would be \$640 for his continued service to the Company. In June 2002 the agreement with another officer was amended to increase the retirement benefit by changing the computation of the annual benefit to equal 2% of his respective average total compensation (i.e., base salary and bonus compensation) in the three years preceding attainment by the executive of age sixty-five or termination of such executive's full time employment, whichever occurs later, multiplied by the number of years of such executive's employment by the Company. Prior to the amendment, which is effective as of January 1, 2002, the benefit computation had been based on 1/2% of total compensation. The amendment also adds a survivors benefit for his surviving spouse. The change in the retirement benefit did not have a material impact on the financial statements.

#### **11. STOCKHOLDERS EQUITY**

In June 2002 the stockholders approved the 2002 Stock Incentive Plan (2002 Plan). Under the 2002 Plan, qualified or non-qualified options to purchase up to a maximum of 1,500,000 shares of common stock may be granted to certain employees, directors, officers, and consultants of the Company. Stock Options are granted at the discretion of the Board of Directors at exercise prices not less than 50% of the fair market value at the date of grant. Options shall vest in accordance with terms to be established by the Board of Directors at the time of each individual grant and shall expire not later than 10 years from the date of grant. At June 30, 2002 no options had been granted under the 2002 Plan.

#### **12. SUPPLEMENTAL CONSOLIDATING FINANCIAL STATEMENTS**

The following supplemental consolidating financial statements as of June 30, 2002 and December 31, 2001, and for each of the three month and six month periods ended June 30, 2002 and 2001, 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 2002 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, 2002

	Issuer/ Guarantor Parent	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and equivalents	\$	\$ 267	\$ 939	\$	\$ 1,206
Accounts receivable, net		24,362	5,821		30,183
Inventories		90,480	3,958	41	94,479
Deferred income taxes	7,569	14,867			22,436
Prepaid expenses and other	113	3,689	555		4,357
Total current assets	7,682	133,665	11,273	41	152,661
Property, plant and equipment, net		63,322	2,588	(47)	65,863
Purchase price in excess of net assets acquired					
Other assets, net	4,462	455		(573)	4,344
Investment	49,665	11,222		(60,887)	
Total	\$ 61,809	\$ 208,664	\$ 13,861	\$ (61,466)	\$ 222,868
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current liabilities:					
Revolving loan facilities and notes payable	\$	\$ 28,345	\$	\$	\$ 28,345
Accounts payable		5,491	6,958		12,449
Accrued expenses	40	5,480	846		6,366
Accrued interest	3,832	113		(450)	3,495
Accrued compensation		1,667	214		1,881
Accrued advertising		2,548			2,548
Income taxes payable	(13,194)	9,893	484	3,228	411
Total current liabilities	(9,322)	53,537	8,502	2,778	55,495
Long-term debt	165,000	9,706		(19,654)	155,052
Deferred income taxes	9,672	9,146			18,818
Pension liability and other long-term liabilities		2,320			2,320
Intercompany (receivable) payable	10,038	21,000	(32,880)	1,842	
Stockholders' equity (deficit)	(113,579)	112,955	38,239	(46,432)	(8,817)
Total	\$ 61,809	\$ 208,664	\$ 13,861	\$ (61,466)	\$ 222,868

## SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEETS

December 31, 2001

	Issuer/ Guarantor Parent	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and equivalents	\$	\$ 3,249	\$ 1,993	\$	\$ 5,242
Accounts receivable, net		52,465	5,065		57,530
Inventories		71,977	3,431	(459)	74,949
Deferred income taxes	5,857	11,991			17,848
Prepaid expenses and other	113	2,296	256		2,665
Total current assets	5,970	141,978	10,745	(459)	158,234
Property, plant and equipment, net		65,563	2,679	(47)	68,195
Purchase price in excess of net assets acquired		5,825		400	6,225
Other assets, net	4,720	509		(512)	4,717
Investment	49,665	10,020		(59,685)	
Total	\$ 60,355	\$ 223,895	\$ 13,424	\$ (60,303)	\$ 237,371
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Current liabilities:					
Revolving loan facilities and notes payable	\$	\$ 16,995	\$	\$	\$ 16,995
Accounts payable		6,089	4,887		