ONEIDA LTD
Form 10-Q
September 09, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 26, 2003

Commission file number 1-5452

ONEIDA LTD.
(Exact name of Registrant as specified in its charter)

NEW YORK	15-0405700
(State or other jurisdiction of incorporation or organization)	I.R.S. Employer Identification Number

ONEIDA, NEW YORK	13421
(Address of principal executive offices)	(Zip code)

(315) 361-3636
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 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 [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of September 5, 2003: 16,627,760

ONEIDA LTD.
FORM 10-Q
FOR THE THREE AND SIX MONTHS ENDED July 26, 2003

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		None.	
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		None.	
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		None.	
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		None.	

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(a) Exhibits:		
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(b) Current Reports on Form 8-K:

A Form 8-K, dated as of May 13, 2003, was filed May 14, 2003, under Item 5, relating to a Press Release in which the Company disclosed selected, unaudited financial information related to the first quarter of its fiscal year ended January 2004.

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PART I

ITEM 1.

ONEIDA LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(Dollars in Thousands except per share amounts)	FOR THE THREE MONTHS ENDED JUL 26, 2003	FOR THE THREE MONTHS ENDED JUL 27, 2002	FOR THE SIX MONTHS ENDED JUL 26, 2003	FOR THE SIX MONTHS ENDED JUL 27, 2002
REVENUES:				
Net sales	$105,975	$113,811	$212,147	$230,672
Licensing fees	350	311	690	679
TOTAL REVENUES	106,325	114,122	212,837	231,351
COSTS AND EXPENSES:				
Cost of sales	76,975	77,083	154,303	156,855
Selling, distribution and administrative expenses	31,145	31,242	62,084	62,352
TOTAL COSTS AND EXPENSES	108,120	108,325	216,387	219,207
LOSS ON SALE OF FIXED ASSETS ...	43	23	69	27
INCOME (LOSS) FROM OPERATIONS ..	(1,838)	5,774	(3,619)	12,117
Other income	525	4,281	1,058	5,232
Other expense	503	1,204	764	1,614
Interest and amortization of deferred financing costs	4,068	4,206	7,932	8,464
INCOME (LOSS) BEFORE INCOME TAXES .	(5,884)	4,645	(11,257)	7,271
PROVISION (BENEFIT) FOR INCOME TAXES	(2,177)	1,730	(4,165)	2,708
NET INCOME (LOSS)	$ (3,707)	$ 2,915	$ (7,092)	$ 4,563
EARNINGS PER SHARE OF COMMON STOCK:				
Net income (loss):				
Basic	$(.23)	$ .17	$(.43)	$ .27
Diluted (NOTE 3)...........	(.23)	.17	(.43)	.27
SHARES USED IN PER SHARE DATA:				
Basic	16,577	16,540	16,566	16,535
Diluted (NOTE 3)	16,577	16,608	16,566	16,575
CASH DIVIDENDS DECLARED (Common)	$.00	$.02	$.02	$.04

See notes to consolidated financial statements.

ONEIDA LTD.
CONSOLIDATED BALANCE SHEETS
JULY 26, 2003 AND JANUARY 25, 2003

	(Dollars in Thousands)	
	JULY 26, 2003 (Unaudited)	JAN 25, 2003
ASSETS		
CURRENT ASSETS:		
Cash	$ 4,291	$ 2,653
Accounts receivable, net of allowance for doubtful. accounts of $2,907 and $2,963	63,330	75,810
Other accounts and notes receivable	2,724	2,196
Inventories:		
Finished goods	150,666	145,836
Goods in process	11,922	12,531
Raw materials and supplies	9,581	9,206
Other current assets	10,591	9,290
Total current assets	253,105	257,522
PROPERTY, PLANT AND EQUIPMENT-At cost:		
Land and buildings	70,570	70,265
Machinery and equipment	158,167	156,513
Tooling	32,308	30,727
Less accumulated depreciation	(162,264)	(155,139)
Property, plant and equipment-net	98,781	102,366
OTHER NON-CURRENT ASSETS:		
Goodwill	134,969	133,944
Deferred income taxes	18,396	18,575
Other assets	13,473	12,713
TOTAL	$518,724	$525,120

See notes to consolidated financial statements.

ONEIDA LTD.
CONSOLIDATED BALANCE SHEETS
JULY 26, 2003 AND JANUARY 25, 2003

(Dollars in Thousands)	
JULY 26, 2003 (Unaudited)	JAN 25, 2003

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Short-term debt	$ 8,909	$ 8,510
Accounts payable	22,698	25,711
Accrued liabilities	27,840	32,008
Dividends payable		363
Current installments of long-term debt	230,295	6,406
Total current liabilities	289,742	72,998
LONG-TERM DEBT	3,056	219,037
OTHER NON-CURRENT LIABILITIES:		
Accrued postretirement liability	61,007	59,708
Accrued pension liability	23,691	23,496
Other liabilities	16,603	20,492
Total	101,301	103,696
STOCKHOLDERS' EQUITY:		
Cumulative 6% preferred stock; $25 par value; authorized 95,660 shares, issued 86,036 shares, callable at $30 per share	2,151	2,151
Common stock $1 par value; authorized 48,000,000 shares, issued 17,862,164 and 17,836,571 shares	17,862	17,837
Additional paid-in capital	84,502	84,318
Retained earnings	60,374	68,407
Accumulated other comprehensive loss	(17,037)	(19,190)
Less cost of common stock held in treasury; 1,237,677 shares and 1,285,679 shares	(23,227)	(24,134)
Stockholders' Equity	124,625	129,389
TOTAL	$518,724	$525,120

See notes to consolidated financial statements.

ONEIDA LTD.
CONSOLIDATED STATEMENTS OF CHANGES
IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JULY 26, 2003
(In Thousands)

Accumulated
Comp. Add'l

Unaudited)	Income (Loss)	Common Shares	Common Stock	Pref'd Stock	Paid-in Capital	Retained Earnings
Balance at Jan 25, 2003..		17,837	$17,837	$2,151	$84,318	$68,407
Exercise of stock options		25	25		184	
Contribution of treasury shares to ESOP						(578)
Cash dividends declared ($.02 per share)						(363)
Net income (loss)	$(7,092)					(7,092)
Other comprehensive income	2,153					
Comprehensive loss	$(4,939)					
Balance at July 26, 2003.		17,862	$17,862	$2,151	$84,502	$60,374

	Accumulated Other Comp Income(Loss)	Treasury Stock
Balance at Jan 25, 2003 .	$(19,190)	$(24,134)
Contribution of treasury shares to ESOP		907
Other comprehensive income	2,153	
Balance at July 26, 2003.	$(17,037)	$(23,227)

See notes to consolidated financial statements.

ONEIDA LTD.
CONSOLIDATED STATEMENTS OF CHANGES
IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JULY 27, 2002
(In Thousands)

(Unaudited)	Accumulated Comp. Income	Common Shares	Common Stock	Pref'd Stock	Add'l Paid-in Capital	Retained Earnings
Balance at Jan 26, 2002		17,809	$17,809	$2,151	$83,965	$60,638
Exercise of stock options		19	19		173	
Cash dividends declared ($.04 per share)						(727)
Net income	$ 4,563					4,563
Other comprehensive income	921					
Comprehensive income	$ 5,484					
Balance at July 27, 2002.		17,828	$17,828	$2,151	$84,138	$64,474

	Accumulated Other Comp Income(Loss)	Treasury Stock
Balance at Jan 26, 2002 .	$(16,328)	$(24,134)
Other comprehensive income	921	
Balance at July 27, 2002.	$(15,407)	$(24,134)

See notes to consolidated financial statements.

ONEIDA LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JULY 26, 2003 AND JULY 27, 2002
(Unaudited)
(In Thousands)

	FOR THE SIX MONTHS ENDED	
	JULY 26, 2003	JULY 27, 2002

CASH FLOW FROM OPERATING ACTIVITIES:		
Net income (loss)	$(7,092)	$ 4,563
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,205	7,950
Deferred income taxes	179	34
Changes in operating assets and liabilities:		
Accounts receivable	11,951	11,392
Inventories	(4,597)	(6,606)
Other current assets	(1,301)	(4,467)
Other assets	(3,236)	(6,407)
Accounts payable	(3,013)	5,282
Accrued liabilities	(4,203)	(10,779)
Other liabilities	(2,392)	13,308
Net cash provided by (used in) operating activities	(5,499)	14,270
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures	(3,670)	(4,390)
Proceeds from sale of fixed assets	500	409
Proceeds from sale of marketable securities		8,399
Net cash provided by (used in) investing activities	(3,170)	4,418
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	210	192
Increase (decrease) in short-term debt	399	(2,083)
Increase (decrease) in long-term debt	7,908	(25,450)
Dividends paid	(363)	(726)
Net cash provided by (used in) financing activities	8,154	(28,067)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	2,153	921
NET (DECREASE)INCREASE IN CASH	1,638	(8,458)
CASH AT BEGINNING OF YEAR	2,653	11,112
CASH AT END OF PERIOD	$4,291	$2,654
NON-CASH CONTRIBUTION OF TREASURY SHARES TO ESOP	$907	

See notes to consolidated financial statements.

ONEIDA LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) (Thousands)

1. The consolidated financial statements for the three and six months ended July 26, 2003 and July 27, 2002 are unaudited; in the opinion of management such unaudited statements include all adjustments (which comprise only normal recurring accruals) necessary for a fair presentation of the results of such periods. The results of operations for the three and six months ended July 26, 2003 are not necessarily indicative of the results of operations to be expected for the year ending January 31, 2004. The consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes for the years ended in January 2003 and 2002 included in the Company's January 25, 2003 Annual Report to the Securities and Exchange Commission on Form 10-K.

Certain reclassifications have been made to the prior year's information to conform to the current year presentation. In 2002, shipping and handling costs have been reclassified from net sales to cost of sales. This reclassification resulted in an increase in net sales and cost of sales of $2,572 and $4,426 for the three and six months ending July 26, 2002, respectively. Additionally, amortization of deferred financing costs has been reclassified from other expense to interest and amortization of deferred financing costs. This reclassification resulted in a decrease in other expenses and an increase in interest and amortization of deferred financing costs of $416 and $587 for the three and six months ending July 27, 2002, respectively.

2. The provision for income taxes is based on pre-tax income for financial statement purposes. Deferred tax is provided to give effect to changes in temporary and permanent differences between the financial statements and tax bases of assets and liabilities. The temporary differences arise principally from postretirement benefits, depreciation and other employee benefits. The Company anticipates an effective tax rate of 37% for the year ended January 2004.

3. Basic and diluted earnings per share are presented for each period in which a statement of operations is presented. Basic earnings per share is computed by dividing income less preferred stock dividends by the weighted average shares actually outstanding for the period. Diluted earnings per share includes the potentially dilutive effect of shares issuable under the employee stock purchase and incentive stock option plans.

The following is a reconciliation of basic earnings per share to diluted earnings per share for the three months ended July 26, 2003 and July 27, 2002:

	Net Income (Loss)	Preferred Stock Dividends	Adjusted Net Income (Loss)	Average Shares	Earnings (Loss) Per Share

	Net Income (Loss)	Preferred Stock Dividends	Adjusted Net Income (Loss)	Average Shares	Earnings (Loss) Per Share
2003:					
Basic earnings (loss) per share	$(3,707)	$(32)	$(3,739)	16,577	$(.23)
Effect of stock options.					
Diluted earnings (loss) per share	(3,707)	(32)	(3,739)	16,577	(.23)
2002:					
Basic earnings per share	$2,915	$(32)	$2,883	16,540	$.17
Effect of stock options.				68	
Diluted earnings per share	2,915	(32)	2,883	16,608	.17

The following is a reconciliation of basic earnings per share to diluted earnings per share for the six months ended July 26, 2003 and July 27, 2002:

	Net Income (Loss)	Preferred Stock Dividends	Adjusted Net Income (Loss)	Average Shares	Earnings (Loss) Per Share
2003:					
Basic earnings (loss) per share	$(7,092)	$(64)	$(7,156)	16,566	$(.43)
Effect of stock options.					
Diluted earnings (loss) per share	(7,092)	(64)	(7,156)	16,566	(.43)
2002:					
Basic earnings per share	$4,563	$(64)	$4,499	16,535	$.27
Effect of stock options.				40	
Diluted earnings per share	4,563	(64)	4,499	16,575	.27

4. In April 2003, the Company and its required lenders entered into amendments to the revolving credit and note agreements. These amendments extend the maturity to May 31, 2005 from February 1, 2004, adjust certain financial covenants and prohibit payment of dividends on common stock. In addition, the commitment under the revolving credit facility reduced to $225,000 upon signing of the amendment with further reductions to $220,000 on July 25, 2003, $215,000 on November 3, 2003, $205,000 on January 30, 2004, $185,000 on February 7, 2004, $175,000 on May 3, 2004 and $165,000 on November 1, 2004.

These facilities contain certain financial covenants, including a restriction limiting the Company's total debt outstanding to a pre-determined multiple of the prior rolling twelve months earnings before interest, taxes, deprecation and amortization. A default in compliance with these covenants, if unremedied, could cause the lenders to declare the principal outstanding to be payable immediately. As of July 26, 2003 the Company was in violation of the interest coverage ratio, leverage ratio and net worth covenants and received waivers from its required lenders. The Company will pay $28 in compensation for these waivers. More restrictive covenants must be met as of October 25, 2003 and it is probable that the Company will fail to meet those covenants, and as a result, the Company's outstanding borrowings are classified as current. In the third quarter, the Company intends to request amendments to the existing revolving credit and note agreements to incorporate a number of changes. These changes include the amendment of the financial covenants to permit certain transactions. In the event that the existing revolving credit and note agreements cannot be amended or appropriate waivers are not obtained, the Company may not have sufficient liquidity to support future operations.

The aggregate amounts of long term debt maturities due each year are as follows:

Year Ended January	
2004	$230,295
2005	$575
2006	$1,493
2007	$913
2008	$21
2009	$22
After	$32

As of July 26, 2003 the Company had unused bank lines of credit of $11,600. Under the provisions of the amended revolving credit and note agreements, at July 26, 2003 the Company was able to declare dividends on its 6% Cumulative Preferred Stock up to $32 per quarter. However, no dividend was declared on the preferred stock for the first or second quarter of 2003.

In order to improve profitability and liquidity, the Company is implementing lean manufacturing and improving production efficiencies as well as reducing headcount in the Sherrill, NY manufacturing facility. Additionally, the Company is in the process of identifying additional opportunities, which may include further headcount reductions and the potential closure of inefficient facilities. If any manufacturing facilities are closed, the Company could continue to market the affected product, using independent suppliers. The results of the Company's actions are intended to reduce costs, increase the Company's liquidity and better position the Company to compete under the current economic conditions. If any facilities are closed, the related assets could be liquidated, contingent on the approval by the Company's lenders.

Provided the above amendments or waivers are obtained, management believes there is sufficient liquidity to support the Company's funding requirements over the next year from future operations as well as from available bank lines of credit. The Company may need to raise additional capital to reduce its outstanding debt obligations as required by the amended agreements. Our revenue and costs may be dependent upon factors that are not within our control. Due to the uncertainty of these factors, actual revenue and costs may vary from expected amounts, possibly to a material degree, and such variations could affect our future liquidity. Should factors differ materially, management may delay capital expenditures, reduce overhead, selling, distribution and administrative expenses, or seek alternative financing.

5. The Company's operations and assets are in one principal segment; tableware products. The Company's tableware segment is grouped around the manufacture and distribution of three major product categories: metal tableware, china dinnerware and glass tableware products. The Company also distributes a variety of other tableware accessories. These products are sold directly to a broad base of retail outlets including department stores, mass merchandisers, Oneida Home stores and chain stores. Additionally, these products are sold to special sales markets, which include customers who use them as premiums, incentives and business gifts. The Company also sells directly or through distributors to foodservice operations worldwide, including hotels, restaurants, airlines, cruise lines, schools and healthcare facilities. The Company's operations are located in the United States, Canada, Mexico, Italy, Australia, The United Kingdom and China.

Sales by product category for the quarter and first half of 2003 and 2002 were as follows:

(Dollars in Thousands)

Second Quarter	Metal	Dinnerware	Glass	Other	Total
2003 Net Sales	$66,158	$30,361	$ 7,654	$1,802	$105,975
2002 Net Sales	71,319	33,265	7,459	1,768	113,811

Year to date	Metal	Dinnerware	Glass	Other	Total
2003 Net Sales	$129,573	$64,629	$14,182	$3,763	$212,147
2002 Net Sales	141,866	70,160	14,688	3,958	230,672

6. In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. This statement is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company currently does not hold any financial instruments that should be considered for transition from equity to liabilities. The Company will continue to evaluate for application under the standard.

On January 17, 2003 the FASB issued Financial Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities." The objective of FIN No. 46 is to improve financial reporting by companies involved with variable interest entities. FIN No. 46 changes certain consolidation requirements by requiring a

variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation requirements apply to entities created before February 1, 2003, no later than the beginning of the first fiscal year or interim period beginning after June 15, 2003. The Company does not expect the adoption of this standard to have a material impact on its financial condition or results of operations.

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In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," which provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS 123, "Accounting for Stock-Based Compensation" to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

The Company has elected to continue following APB No. 25 in accounting for its stock-based compensation plans. Under APB No. 25, compensation expense is not required to be recognized for the Company's stock-based compensation plans because the fair value equals the option price. Under SFAS 123 as amended by SFAS 148, compensation expense is recognized for the fair value of the options on the date of grant over the vesting period of the options.

Application of the fair-value based accounting provision of SFAS 123 results in the following pro forma amounts of net income (loss) and earnings (loss) per share for the three and six months ended July 26, 2003 and July 27, 2002:

		(Thousands Except Per Share Amounts)			
		Three Months Ended		Six Months Ended	
		July 26, 2003	July 27, 2002	July 26, 2003	July 27, 2002
Net income (loss), as reported		$(3,707)	$2,915	$(7,092)	$4,563
Deduct: Total stock-based employee compensation expense determined under Black-Scholes option pricing model, net of related income tax effect		(459)	(573)	(917)	(1,146)
Pro forma net income (loss)		$(4,166)	$2,342	$(8,009)	$3,417
Earnings (loss) per share:					
As reported:	Basic	$ (.23)	$ .17	$(.43)	$ .27
	Diluted	(.23)	.17	(.43)	.27
Pro forma:	Basic	(.25)	.14	(.49)	.20
	Diluted	(.25)	.14	(.49)	.20

There was no stock based employee compensation expense included in the Consolidated Statement of Operations for any of the periods presented.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Quarter ended July 26, 2003 compared with
the quarter ended July 27, 2002
(In Thousands)

Operations

Net Sales by Product Line:

	Three Months Ended July		
	2003	2002	%Change
Metal products.......	$ 66,158	$ 71,319	(7.2)
Dinnerware products..	30,361	33,265	(8.7)
Glass products.......	7,654	7,459	2.6
Other Products.......	1,802	1,768	1.9
Total..............	$105,975	$113,811	(6.9)

Quarterly Review

Consolidated net sales for the quarter ended July 26, 2003 decreased by $7,836 or 6.9% over the same period a year ago. Metal products net sales decreased by $5,161 or 7.2% over the second quarter of 2002 as consumer confidence remains weak and spending for metal products continues to be depressed. Also contributing to the lower metal product sales are decreased personal and business travel and restaurant activity. Dinnerware products net sales decreased by $2,904 or 8.7% over the same period a year ago also as a result of decreased personal and business travel and restaurant activity and weak consumer confidence. An increase in the Encore supermarket division dinnerware continuity program sales offset a portion of the decrease. Glass products net sales increased by $195 or 2.6% and other products net sales increased by $34 or 1.9% over the second quarter of 2002.

Gross margin as a percentage of net sales was 27.4% in the second quarter of 2003 as compared to 32.3% for the same period of 2002. Lower net sales resulted in the manufacturing plants operating at lower volumes generating unfavorable

factory variances. The unfavorable factory variances were the principle cause of the decline in gross margin. Also contributing to the decrease in gross margin and factory utilization was a trend towards less expensive, lower margin sourced product. The Company experienced a slight cost increase in procured product, which represents over 50% of total sales.

Total operating expenses decreased by $97, or 0.3%, from the same quarter last year. As a percentage of sales, operating expenses were 29.4% compared to 27.5% in 2002. Total operating expenses as a percentage of sales will decline as sales return to expected levels.

Other income was $525 for the quarter as compared to $4,281 for the second quarter of 2002. Other income for the three months ended July 27, 2002 was principally generated from insurance proceeds of $3,000 and gain on sale of Prudential stock of $944.

Interest expense and amortization of deferred financing costs decreased by $138 or 3.3% in the second quarter of 2003 compared with the same period a year ago. Capitalized interest was $70 in the quarter ended 2003 and $29 over the same period a year ago.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Six Months ended July 26, 2003 compared with
the six months ended July 27, 2002
(In Thousands)

Operations

Net Sales by Product Line:

	Six Months Ended July		
	2003	2002	%Change
Metal products.......	$129,573	$141,866	(8.7)
Dinnerware products..	64,629	70,160	(7.9)
Glass products.......	14,182	14,688	(3.4)
Other Products.......	3,763	3,958	(4.9)
Total..............	$212,147	$230,672	(8.0)

Six month review

Consolidated net sales for the six months ended July 26, 2003 decreased by $18,525 or 8.0% over the same period a year ago. An aggressive pricing strategy was utilized in the foodservice and consumer markets to maintain market share across all product lines. Metal products net sales decreased by $12,293 or 8.7%

and dinnerware products net sales decreased by $5,531 or 7.9% over the same period a year ago. Reduced personal and business travel and restaurant activity resulted in lower net sales. Weak consumer confidence also contributed to the lower net sales. An increase in the Encore supermarket continuity metal products and dinnerware products programs net sales offset the decreases caused by reduced travel and consumer confidence. Glass products net sales decreased by $506 or 3.4% and other products net sales decreased by $195 or 4.9% over 2002.

Gross margin as a percentage of net sales was 27.3% for the first six months of 2003 as compared to 32.0% for the same period of 2002. The aggressive pricing strategy utilized to maintain market share coupled with the manufacturing plants operating at lower volumes resulted in lower gross margins. Also contributing to the decrease in gross margin was a trend towards less expensive, lower margin sourced product and a slight cost increase in procured product.

Total operating expenses decreased by $268, or 0.4%, compared to the first six months of the prior year. As a percentage of sales, year to date operating expenses were 29.3% compared to 27.0% in 2002. Total operating expenses as a percentage of sales will decline as sales return to expected levels.

Other income for the period was $1,058 compared to $5,232 for the six months ended July 27, 2002. Other income for the six months ended July 27, 2002 was principally generated from insurance proceeds of $3,000 and gain on sale of Prudential stock of $1,300.

Interest expense and amortization of deferred financing costs decreased by $532 or 6.3% in the first six months of 2003 compared with the same period a year ago. The decrease is due to slightly lower average borrowings and lower prevailing interest rates. Capitalized interest was $80 for the six months ended July 26, 2003 and $55 over the same period a year ago.

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Lean Manufacturing and Potential Restructuring Costs

The Company is implementing a lean manufacturing approach at its Sherrill, NY manufacturing facility in an effort to reduce manufacturing and overhead costs. In August, approximately 70 overhead positions were eliminated at the Sherrill, N.Y. flatware manufacturing operation. The affected employment primarily involved supporting positions that are no longer needed under the Company's continued conversion to a lean manufacturing system. In addition, 30 direct labor positions were reduced as a result of lower demand. The Company will record a pretax expense of $372 in the third quarter associated with these terminations. The lean manufacturing conversion is projected to be complete by April 24, 2004 and expected annual savings are $18 million. Lean manufacturing is a process that eliminates all costs that do not add value to the finished product. The savings will be achieved through the continual elimination of overhead positions and increased manufacturing efficiencies associated with lean manufacturing.

The Company is in the process of identifying opportunities to reduce costs within its manufacturing operations and is considering closing some or all of its other manufacturing facilities: Buffalo China factories in Buffalo, NY and Juarez, Mexico; flatware factory in Toluca, Mexico, hollowware factories in Vercelli, Italy and Shanghai, China. If any manufacturing facilities are closed,

the Company could continue to market the affected product, using independent suppliers. The Company is accumulating and analyzing information related to the potential facility closures and has not committed to closing these manufacturing facilities. The Company is considering several factors including its ability to reduce these facilities' operating costs, ability to source production, and customer reaction. The Company's lenders will have to approve any significant asset disposals. No asset impairments have occurred as of July 26, 2003 and accordingly no costs have been recorded as of that date.

Liquidity & Financial Resources

Cash flow used by operating activities was $5,499 as compared to cash provided by operating activities of $14,270 in the first half of 2002. The net cash used for operating activities during the six months ended July 26, 2003 was primarily due to net losses and negative net working capital changes of $6,791. The net cash provided by operating activities for the six months ended July 27, 2002 was the result of net income and positive changes in working capital of $1,723.

Net cash used in investing activities was $3,170 for the six months ended July 26, 2003 compared with net cash provided of $4,418 for the same period of 2002. Net cash used in investing activities for the six months ended July 26, 2003 primarily related to capital expenditures supporting the lean manufacturing effort in Sherrill, NY and manufacturing equipment purchases. Capital spending for the remainder of 2003 is anticipated to be approximately $4,100. Net cash provided in investing activities for the six months ended July 27, 2002 are the result of the sale of marketable equity securities offset by capital expenditures.

Net cash provided by financing activities was $8,154 for the six months ended July 26, 2003 compared to net cash used by financing activities of $28,067 in the first half of 2002. Net cash provided by financing activities for the six months ended July 26, 2003 was primarily related to borrowings under the revolving credit agreement. The net cash used in financing activities for the six months ended June 27, 2002 was primarily related to debt reduction.

In April 2003, the Company and its required lenders entered into amendments to the revolving credit and note agreements. The amendments extend the maturity to May 31, 2005 from February 1, 2004, adjust certain financial covenants and prohibit payment of dividends on common stock. In addition, the commitment under the revolving credit facility reduced to $225,000 upon signing of the amendment with further reductions to $220,000 on July 25, 2003, $215,000 on November 3, 2003, $205,000 on January 30, 2004, $185,000 on February 7, 2004, $175,000 on May 3, 2004 and $165,000 on November 1, 2004.

These facilities contain certain financial covenants, including a restriction limiting the Company's total debt outstanding to a pre-determined multiple of the prior rolling twelve months earnings before interest, taxes, deprecation and amortization. A default in compliance with these covenants, if unremedied, could cause the lenders to declare the principal outstanding to be payable immediately. As of July 26, 2003 the Company was in violation of the interest coverage ratio, leverage ratio and net worth covenants and received waivers from

its required lenders. The Company will pay $28 in compensation for these waivers. More restrictive covenants must be met as of October 25, 2003 and it is probable that the Company will fail to meet those covenants and, as such, the outstanding borrowings are classified as current. The Company intends to request amendments to the existing revolving credit and note agreements to incorporate a number of changes. These changes include the amendment of the financial covenants to permit the transactions associated with the potential restructuring plan previously discussed. In the event that the existing revolving credit and note agreements cannot be amended or appropriate waivers are not obtained, the Company may not have sufficient liquidity to support future operations.

The aggregate amounts of long term debt maturities due each year are as follows:

Year Ended January	
2004	$230,295
2005	$575
2006	$1,493
2007	$913
2008	$21
2009	$22
After	$32

Working capital was $(36,637) as of July 26, 2003 as compared to $184,524 at January 25, 2003. The decrease in working capital as of July 26, 2003 was caused by the current classification of the revolving credit and note agreements. As of July 26, 2003 the Company had unused bank lines of credit of $11,600. Under the provisions of the amended revolving credit and note agreements, at July 26, 2003 the Company was able to declare dividends on its 6% Cumulative Preferred Stock up to $32 per quarter. However, no dividend was declared on the preferred stock for the first or second quarter of 2003.

In order to improve profitability and liquidity, the Company is implementing lean manufacturing and improving production efficiencies as well as reducing headcount in the Sherrill, NY manufacturing facility. Additionally, the Company is in the process of identifying additional opportunities, which may include further headcount reductions and the potential closure of inefficient facilities. If any manufacturing facilities are closed, the Company could continue to market the affected product, using independent suppliers. The results of the Company's actions are intended to reduce costs, increase the Company's liquidity and better position the Company to compete under the current economic conditions. If any facilities are closed, the related assets could be liquidated, contingent on the approval by the Company's lenders.

Provided the above amendments or waivers are obtained, management believes there is sufficient liquidity to support the Company's funding requirements over the next year from future operations as well as from available bank lines of credit. The Company may need to raise additional capital to reduce its outstanding debt obligations as required by the amended agreements. Our revenue and costs may be dependent upon factors that are not within our control. Due to the uncertainty of these factors, actual revenue and costs may vary from expected amounts, possibly to a material degree, and such variations could affect our future

liquidity. Should factors differ materially, management may delay capital expenditures, reduce overhead, selling, distribution and administrative expenses, or seek alternative financing.

Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. This statement is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company currently does not hold any financial instruments that should be considered for transition from equity to liabilities. The Company will continue to evaluate for application under the standard.

On January 17, 2003 the FASB issued Financial Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities." The objective of FIN No. 46 is to improve financial reporting by companies involved with variable interest entities. FIN No. 46 changes certain consolidation requirements by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation requirements apply to entities created before February 1, 2003, no later than the beginning of the first fiscal year or interim period beginning after June 15, 2003. The Company does not expect the adoption of this standard to have a material impact on its financial condition or results of operations.

In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," which provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS 123, "Accounting for Stock-Based Compensation" to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

ITEM 3.

Quantitative and Qualitative Disclosures about Market Risk.

The Company's market risk is impacted by changes in interest rates and foreign currency exchange rates. Pursuant to the Company's policies, the Company does not hold or issue any significant derivative financial instruments.

The Company's primary market risk is interest rate exposure in the United States. Historically, the Company manages interest rate exposure through a mix

of fixed and floating rate debt. The majority of the Company's debt is currently at floating rates. Based on floating rate borrowings outstanding at July 2003, a 1% change in the rate would result in a corresponding change in annualized interest expense of $2.0 million.

ITEM 4.

Controls and Procedures.

Evaluation of Disclosure Controls and Procedures
Our Chief Executive Officer and our Chief Financial Officer have carried out an evaluation, with the participation of the Company's management, of the design and operation of the Company's "disclosure controls and procedures" (as defined in Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period. Based upon that evaluation, each has concluded that the Company's "disclosure controls and procedures" are effective to insure that information required to be disclosed in the reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and regulations.

Changes in Internal Controls.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls, nor any significant deficiencies or material weaknesses in such controls requiring corrective action, subsequent to the date of their evaluation.

Forward Looking Information

With the exception of historical data, the information contained in this Form 10-Q, as well as those other documents incorporated by reference herein, may constitute forward-looking statements, within the meaning of the Federal securities laws, including but not limited to the Private Securities Litigation Reform Act of 1995. As such, the Company cautions readers that changes in certain factors could affect the Company's future results and could cause the Company's future consolidated results to differ materially from those expressed or implied herein. Such factors include, but are not limited to: changes in national or international political conditions; civil unrest, war or terrorist attacks; general economic conditions in the Company's own markets and related markets; difficulties or delays in the development, production and marketing of new products; the impact of competitive products and pricing; certain assumptions related to consumer purchasing patterns; significant increases in interest rates or the level of the Company's indebtedness; ; inability of the Company to maintain sufficient levels of liquidity; failure of the Company to obtain needed waivers and/or amendments relative to its financing agreements;; foreign currency fluctuations; major slowdowns in the retail, travel or entertainment industries; the loss of several of the Company's key executives, major customers or suppliers; underutilization of, or negative variances at, some or all of the Company's plants and factories; the Company's failure to achieve the savings and profit goals of any planned restructuring or

reorganization programs; international health epidemics such as the SARS outbreak; the impact of changes in accounting standards; potential legal proceedings; changes in pension and medical benefit costs; and the amount and rate of growth of the Company's selling, general and administrative expenses.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ONEIDA LTD.
(Registrant)

Date: September 9, 2003

/s/ GREGG R. DENNY

Gregg R. Denny
Chief Financial Officer