

Symmetry Medical Inc.
Form 10-Q
August 07, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 4, 2009

or

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

For the transition period from _____
to _____

Commission File Number: 001-32374

SYMMETRY MEDICAL INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	35-1996126 (I.R.S. Employer Identification No.)
3724 North State Road 15, Warsaw, Indiana (Address of principal executive offices)	46582 (Zip Code)
(574) 268-2252 (Registrant's telephone number, including area code)	

(Former name, former address and former fiscal year, if changed since last report)

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (S232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of the registrant's common stock as of August 4, 2009 was 35,810,751.

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Cautionary Note Regarding Forward-Looking Statements

Throughout this Quarterly Report on Form 10-Q or in other reports or registration statements filed from time to time with the Securities and Exchange Commission under the Securities Exchange Act of 1934, or under the Securities Act of 1933, as well as in documents we incorporate by reference or in press releases or oral statements made by our officers or representative, we may make statements that express our opinions, expectations or projections regarding future events or future results, in contrast with statements that reflect historical facts. These predictive statements, which we generally precede or accompany by such typical conditional words such as “anticipate,” “intend,” “believe,” “estimate,” “plan,” “seek,” “project,” “potential,” or “expect,” or by the words “may,” “will,” “could,” or “should,” and similar or terminology are intended to operate as “forward-looking statements” of the kind permitted by the Private Securities Litigation Reform Act of 1995. That legislation protects such predictive statements by creating a “safe harbor” from liability in the event that a particular prediction does not turn out as anticipated.

Forward-looking statements convey our current expectations or forecast future events. While we always intend to express our best judgment when we make statements about what we believe will occur in the future, and although we base these statements on assumptions that we believe to be reasonable when made, these forward-looking statements are not a guarantee of performance, and you should not place undue reliance on such statements. Forward-looking statements are subject to many uncertainties and other variable circumstances, many of which are outside of our control, that could cause our actual results and experience to differ materially from those we thought would occur.

We also refer you to and believe that you should carefully read the “Cautionary Note Regarding Forward-Looking Statements” and “Risk Factors” portions of our Annual Report for fiscal 2008 on Form 10-K, as well as in other reports which we file with the Securities and Exchange Commission, to better understand the risks and uncertainties that are inherent in our business and in owning our securities. These reports are available publicly on the SEC website, www.sec.gov, and on our website, www.symmetrymedical.com.

Any forward-looking statements which we make in this report or in any of the documents that are incorporated by reference herein speak only as of the date of such statement, and we undertake no ongoing obligation to update such statements. Comparisons of results between current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

PART I FINANCIAL INFORMATION
ITEM I. FINANCIAL STATEMENTS

Symmetry Medical Inc.
Condensed Consolidated Balance Sheets

	July 4, 2009	January 3, 2009
	(In Thousands)	
	(unaudited)	
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 18,516	\$ 10,191
Accounts receivable, net	52,598	52,845
Inventories	68,334	61,111
Refundable income taxes	830	6,610
Deferred income taxes	5,256	3,993
Other current assets	4,913	3,154
Total current assets	150,447	137,904
Property and equipment, net	118,507	115,045
Goodwill	153,760	153,521
Intangible assets, net of accumulated amortization	44,260	45,039
Other assets	1,402	1,728
Total Assets	\$ 468,376	\$ 453,237
Liabilities and Shareholders' Equity:		
Current Liabilities:		
Accounts payable	\$ 24,449	\$ 26,929
Accrued wages and benefits	9,865	12,784
Other accrued expenses	4,864	5,186
Income tax payable	2,530	2,637
Deferred income taxes	109	-
Revolving line of credit	7,096	2,495
Current portion of capital lease obligations	668	1,034
Current portion of long-term debt	18,650	16,900
Total current liabilities	68,231	67,965
Deferred income taxes	23,332	18,131
Derivative valuation liability	3,370	3,771
Capital lease obligations, less current portion	3,129	3,356
Long-term debt, less current portion	95,400	107,600
Total Liabilities	193,462	200,823
Shareholders' Equity:		
Common Stock, \$.0001 par value; 75,000 shares authorized; shares issued July 4, 2009—35,811; January 3, 2009—35,801	4	4

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Additional paid-in capital	277,716	275,890
Accumulated deficit	(5,685)	(21,507)
Accumulated other comprehensive income (loss)	2,879	(1,973)
Total Shareholders' Equity	274,914	252,414
Total Liabilities and Shareholders' Equity	\$ 468,376	\$ 453,237

See accompanying notes to condensed consolidated financial statements.

Symmetry Medical Inc.
Condensed Consolidated Statements of Operations

	Three Months Ended		Six Month Ended	
	July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
(In Thousands, Except Per Share Data)				
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	\$ 100,954	\$ 109,787	\$ 202,376	\$ 211,649
Cost of Revenue	74,183	82,373	151,047	160,289
Gross Profit	26,771	27,414	51,329	51,360
Selling, general and administrative expenses	13,230	14,926	26,582	29,309
Operating Income	13,541	12,488	24,747	22,051
Other (income)/expense:				
Interest expense	1,564	2,917	3,384	5,617
Derivatives valuation gain	(175)	(1,381)	(568)	(215)
Other	(12)	(189)	(308)	(352)
Income before income taxes	12,164	11,141	22,239	17,001
Income tax expense	3,189	4,939	6,417	6,832
Net income	\$ 8,975	\$ 6,202	\$ 15,822	\$ 10,169
Net income per share:				
Basic	\$ 0.25	\$ 0.18	\$ 0.45	\$ 0.29
Diluted	\$ 0.25	\$ 0.17	\$ 0.44	\$ 0.28
Weighted average common shares and equivalent shares outstanding:				
Basic	35,326	35,155	35,289	35,154
Diluted	35,529	35,323	35,437	35,329

See accompanying notes to condensed consolidated financial statements.

Symmetry Medical Inc.
Condensed Consolidated Statements of Cash Flows

	Six Months Ended	
	July 4, 2009	June 28, 2008
	(In Thousands)	
	(unaudited)	(unaudited)
Operating activities		
Net income	\$ 15,822	\$ 10,169
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,443	9,397
Amortization	1,461	1,474
Net loss on sale of assets	106	127
Deferred income tax provision	4,041	(924)
Excess tax benefit from stock-based compensation	-	(92)
Stock-based compensation	1,720	613
Derivative valuation gain	(568)	(69)
Foreign currency transaction (gains) losses	(353)	414
Change in operating assets and liabilities:		
Accounts receivable	1,956	(19,890)
Other assets	(1,404)	(1,449)
Inventories	(5,896)	(7,503)
Current income taxes	5,788	5,981
Accounts payable	(4,267)	(1,082)
Accrued expenses and other	(4,295)	(62)
Net cash provided by (used in) operating activities	23,554	(2,896)
Investing activities		
Purchases of property and equipment	(9,171)	(8,976)
Proceeds from the sale of fixed assets	11	220
Acquisitions, net of cash received	-	(46,506)
Net cash used in investing activities	(9,160)	(55,262)
Financing activities		
Proceeds from bank revolver	28,659	39,887
Payments on bank revolver	(26,462)	(40,669)
Issuance of long-term debt	-	60,000
Payments on long-term debt and capital lease obligations	(9,120)	(6,297)
Proceeds from the issuance of common stock	106	116
Excess tax benefit from stock-based compensation	-	92
Net cash provided by (used in) financing activities	(6,817)	53,129
Effect of exchange rate changes on cash	748	501
Net increase (decrease) in cash and cash equivalents	8,325	(4,528)

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Cash and cash equivalents at beginning of period	10,191	12,089
Cash and cash equivalents at end of period	\$ 18,516	\$ 7,561
Supplemental disclosures:		
Cash paid for interest	\$ 3,954	\$ 4,487
Cash paid (received) for income taxes	\$ (3,474)	\$ 1,854
Assets acquired under capital leases	\$ -	\$ 91

See accompanying notes to condensed consolidated financial statements.

Symmetry Medical Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
(In Thousands, Except Per Share Data)

1. Basis of Presentation

The condensed consolidated financial statements include the accounts of Symmetry Medical Inc. and its wholly-owned subsidiaries (collectively referred to as the Corporation), Symmetry Medical USA Inc., Jet Engineering, Inc., Ultrex, Inc., Riley Medical Inc., Symmetry Medical Switzerland SA (formerly known as Riley Medical Europe, SA), Symmetry Medical Everest LLC, Everest Metal International Limited, Symmetry Medical Cheltenham Limited, Symmetry Medical PolyVac, SAS, Thornton Precision Components Limited, Symmetry Medical Malaysia SDN, Clamonta Limited, Specialty Surgical Instrumentation, Inc., UCA, LLC, TNCO, Inc. and Symmetry Medical New Bedford, LLC. The Corporation is a global supplier of integrated products consisting primarily of surgical implants, instruments and cases to orthopedic and other medical device companies.

The condensed consolidated financial statements of the Corporation have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments of a normal recurring nature considered necessary to present fairly, the consolidated financial position of the Corporation, its results of operations and cash flows. The Corporation's results are subject to seasonal fluctuations. Interim results are not necessarily indicative of results for a full year. The condensed consolidated financial statements included herein should be read in conjunction with the fiscal year 2008 consolidated financial statements and the notes thereto included in the Corporation's Annual Report on Form 10-K for fiscal year 2008.

The Corporation's fiscal year is the 52 or 53 week period ending on the Saturday closest to December 31. Fiscal year 2009 is a 52 week year ending January 2, 2010. The Corporation's interim quarters for 2009 are 13 weeks long and quarter-end dates have been set as April 4, 2009, July 4, 2009 and October 3, 2009. Fiscal year 2008 was a 53 week year (ending January 3, 2009). The Corporation's first two interim quarters for 2008 were 13 weeks long ending the Saturday closest to March 31 and June 30 and the third quarter was 14 weeks long, ending Saturday, October 4, 2008. References in these condensed consolidated financial statements to the three months ended refer to these financial periods, respectively.

2. Inventories

Inventories consist of the following:

	July 4, 2009 (unaudited)	January 3, 2009
Raw material and supplies	\$ 16,390	\$ 12,502
Work-in-process	31,390	31,420
Finished goods	20,554	17,189
	\$ 68,334	\$ 61,111

3. Property and Equipment

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Property and equipment, including depreciable lives, consists of the following:

	July 4, 2009 (unaudited)	January 3, 2009
Land	\$ 7,004	\$ 6,473
Buildings and improvements (20 to 40 years)	42,006	40,183
Machinery and equipment (5 to 15 years)	135,125	127,716
Office equipment (3 to 5 years)	11,995	10,859
Construction-in-progress	6,911	4,227
	203,041	189,458
Less accumulated depreciation	(84,534)	(74,413)
	\$ 118,507	\$ 115,045

4. Intangible Assets

Intangible assets were acquired in connection with our business acquisitions. As of July 4, 2009, the balances of intangible assets, other than goodwill, were as follows:

	Weighted-average Amortization Period (unaudited)	Gross Intangible Assets (unaudited)	Accumulated Amortization (unaudited)	Net Intangible Assets (unaudited)
Acquired technology and patents	10 years	\$ 2,347	\$ (883)	\$ 1,464
Acquired customers	18 years	42,635	(7,903)	34,732
Non-compete agreements	5 years	668	(314)	354
Intangible assets subject to amortization	17 years	45,650	(9,100)	36,550
Proprietary processes	Indefinite			3,598
Trademarks	Indefinite			4,112
Indefinite-lived intangible assets, other than goodwill				7,710
Total				\$ 44,260

As of January 3, 2009, the balances of intangible assets, other than goodwill, were as follows:

	Weighted-average Amortization Period	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Acquired technology and patents	10 years	\$ 2,295	\$ (713)	\$ 1,582
Acquired customers	18 years	42,330	(6,596)	35,734
Non-compete agreements	5 years	559	(243)	316
Intangible assets subject to amortization	17 years	45,184	(7,552)	37,632
Proprietary processes	Indefinite			3,428
Trademarks	Indefinite			3,979
Indefinite-lived intangible assets, other than goodwill				7,407
Total				\$ 45,039

5. New Accounting Pronouncements

Business Combinations. The Corporation adopted the provisions of the FASB Statement of Financial Accounting Standards (SFAS) No. 141(R), Business Combinations, on January 4, 2009. This Statement amends SFAS 141, Business Combinations, and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any non-controlling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The adoption of SFAS No. 141(R) had an immaterial impact on the Corporation's financial position and results of operations.

Disclosures about Derivative Instruments and Hedging Activities, an Amendment of SFAS No. 133. The Corporation adopted the provisions of the FASB Statement of Financial Accounting Standards (SFAS) No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment of SFAS No. 133, on January 4, 2009. The Statement requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. SFAS 161 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of SFAS 133 have been applied, and the impact that hedges have on an entity's financial position, results of operations, and cash flows. The adoption of SFAS No. 161 had no impact on the Corporation's financial position or results of operations.

Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities. The Corporation adopted the provisions of the FASB Staff Position (FSP) No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities, on January 4, 2009, with retrospective application. This FSP was issued to clarify that unvested share-based payment awards with a right to receive non-forfeitable dividends are participating securities. This FSP also provides guidance on how to allocate earnings to participating securities and compute basic earnings per share (EPS) using the two-class method. The adoption of EITF 03-6-1 reduced previously reported EPS by \$0.01 for the three and six months ended June 28, 2008.

5. New Accounting Pronouncements (Continued)

Subsequent Events. The Corporation adopted the provisions of the FASB Statement of Financial Accounting Standards (SFAS) No. 165, Subsequent Events, on July 4, 2009. This Statement modifies the definition of subsequent events and defines the two types of subsequent events as recognized and non-recognized. It also requires entities to disclose the date through which subsequent events have been evaluated and the basis for choosing that date. The Corporation issued its financial statements by filing with the Securities Exchange Commission on August 7, 2009, for the quarter ended July 4, 2009. The Corporation evaluated subsequent events up through the time of the filing.

6. Segment Reporting

The Corporation primarily designs, develops and manufactures implants and related surgical instruments and cases for orthopedic device companies and companies in other medical device markets such as dental, osteobiologic and endoscopy. The Corporation also sells products to the aerospace industry. The Corporation manages its business in multiple operating segments. Because of the similar economic characteristics of these operations, including the nature of the products, comparable level of FDA regulations, same or similar customers, those operations have been aggregated following the provisions of SFAS 131 for segment reporting purposes. The results of one segment which sells exclusively to aerospace customers has not been disclosed separately as it does not meet the quantitative disclosure requirements.

The Corporation is a multi-national Corporation with operations in the United States, United Kingdom, France, Ireland and Malaysia. As a result, the Corporation's financial results can be impacted by currency exchange rates in the foreign markets in which the Corporation sells its products. Revenues are attributed to geographic locations based on the location to which we ship our products.

Revenue from External Customers:

	Three Months Ended		Six Months Ended	
	July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
	(unaudited)		(unaudited)	
United States	\$ 74,427	\$ 77,272	\$ 151,320	\$ 145,179
United Kingdom	7,386	14,723	15,360	31,303
Ireland	9,796	8,376	19,298	16,972
Other foreign countries	9,345	9,416	16,398	18,195
Total net revenues	\$ 100,954	\$ 109,787	\$ 202,376	\$ 211,649

Concentration of Credit Risk:

A substantial portion of the Corporation's revenue is derived from a limited number of customers. The Corporation's revenue includes revenue from customers of the Corporation which individually account for 10% or more of revenue as follows:

Three months ended July 4, 2009— One customer represented approximately 41.4% of revenue.

Six months ended July 4, 2009 – One customer represented approximately 41.7% of revenue.

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Three months ended June 28, 2008— Two customers represented approximately 32.6% and 10.4% of revenue, respectively.

Six months ended June 28, 2008 – Two customers represented approximately 32.4% and 10.6% of revenue, respectively.

6. Segment Reporting (Continued)

Revenue by Product Category:

Following is a summary of the composition by product category of the Corporation's revenue to external customers. Revenues from aerospace products are included in the "other" category.

	Three Months Ended		Six Months Ended	
	July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
	(unaudited)		(unaudited)	
Instruments	\$ 46,847	\$ 45,099	\$ 93,352	\$ 84,388
Implants	29,935	31,139	59,018	61,434
Cases	18,873	23,427	37,372	44,945
Other	5,299	10,122	12,634	20,882
Total net revenues	\$ 100,954	\$ 109,787	\$ 202,376	\$ 211,649

7. Net Income Per Share

The following table sets forth the computation of earnings per share.

July 4,	Three Months Ended		Six Months Ended
	July 4,	June 28,	