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Symmetry Medical Inc.
Form 10-Q
November 08, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 1, 2011

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)

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

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

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The number of shares outstanding of the registrant's common stock as of November 8, 2011 was 36,316,066 shares.

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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 (SEC) 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,” expressions 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 2010 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
(In Thousands)

	October 1, 2011 (unaudited)	January 1, 2011
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$20,559	\$15,067
Accounts receivable, net	48,313	50,457
Inventories	80,633	70,373
Refundable income taxes	4,804	1,911
Deferred income taxes	5,506	4,597
Other current assets	3,514	3,281
Total current assets	163,329	145,686
Property and equipment, net	105,140	107,879
Goodwill	157,530	154,218
Intangible assets, net of accumulated amortization	42,324	39,601
Other assets	3,607	2,570
Total Assets	\$471,930	\$449,954
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current Liabilities:		
Accounts payable	\$22,724	\$23,097
Accrued wages and benefits	8,954	6,808
Other accrued expenses	5,516	3,881
Accrued income taxes	875	233
Deferred income taxes	41	-
Revolving line of credit	5,853	3,692
Current portion of capital lease obligations	490	454
Current portion of long-term debt	701	1,397
Total current liabilities	45,154	39,562
Accrued income taxes	6,664	6,564
Deferred income taxes	18,167	17,692
Capital lease obligations, less current portion	2,046	2,418
Long-term debt, less current portion	94,500	87,349
Total Liabilities	166,531	153,585
Shareholders' Equity:		
	4	4

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Common Stock, \$.0001 par value; 75,000 shares authorized; shares issued October 1, 2011--36,284; January 1, 2011--35,950

Additional paid-in capital	281,860	279,592
Retained earnings	20,312	14,248
Accumulated other comprehensive income	3,223	2,525
Total Shareholders' Equity	305,399	296,369
Total Liabilities and Shareholders' Equity	\$471,930	\$449,954

See accompanying notes to condensed consolidated financial statements.

SYMMETRY MEDICAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except per Share Data; Unaudited)

	Three Months Ended		Nine Months Ended	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Revenue	\$84,039	\$91,538	\$274,538	\$264,856
Cost of revenue	68,285	71,708	217,233	207,627
Gross profit	15,754	19,830	57,305	57,229
Selling, general and administrative expenses	13,839	12,248	42,469	37,124
Facility closure and severance costs	253	57	2,526	917
Operating Income	1,662	7,525	12,310	19,188
Other (income) expense:				
Interest expense	964	1,504	2,754	4,565
Derivatives valuation gain	-	(389)	-	(1,177)
Other	(160)	715	591	796
Income before income taxes	858	5,695	8,965	15,004
Income tax expense	331	2,123	2,901	5,322
Net income	\$527	\$3,572	\$6,064	\$9,682
Net income per share:				
Basic	\$0.01	\$0.10	\$0.17	\$0.27
Diluted	\$0.01	\$0.10	\$0.17	\$0.27
Weighted average common shares and equivalent shares outstanding:				
Basic	35,546	35,456	35,537	35,449
Diluted	36,021	35,870	36,000	35,802

See accompanying notes to condensed consolidated financial statements.

SYMMETRY MEDICAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(In Thousands; Unaudited)

	Nine Months Ended	
	October 1, 2011	October 2, 2010
Operating activities		
Net income	\$6,064	\$9,682
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	13,811	13,576
Amortization	2,138	2,198
Net loss on sale of assets	77	103
Deferred income tax provision	(283)	666
Stock-based compensation	2,174	693
Derivative valuation gain	-	(1,177)
Foreign currency transaction (gain) loss	(1,474)	566
Change in operating assets and liabilities:		
Accounts receivable	2,873	(10,288)
Other assets	(1,246)	(506)
Inventories	(8,093)	(10,394)
Current income taxes	(2,215)	112
Accounts payable	(942)	9,093
Accrued expenses and other	5,314	(2,400)
Net cash provided by operating activities	18,198	11,924
Investing activities		
Purchases of property and equipment	(10,426)	(9,592)
Proceeds from the sale of property and equipment	113	611
Acquisition, net of cash received	(11,000)	-
Net cash used in investing activities	(21,313)	(8,981)
Financing activities		
Proceeds from revolving credit agreement borrowings	52,819	40,894
Payments on revolving credit agreement borrowings	(45,319)	(29,231)
Proceeds from (payments on) short term borrowings, net	2,441	(1,081)
Issuance of bank term loan	-	2,711
Payments on bank term loans and capital lease obligations	(1,432)	(16,383)
Proceeds from the issuance of common stock	79	99
Net cash provided by (used in) financing activities	8,588	(2,991)
Effect of exchange rate changes on cash	19	(302)
Net increase (decrease) in cash and cash equivalents	5,492	(350)

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Cash and cash equivalents at beginning of period	15,067	14,219
Cash and cash equivalents at end of period	\$20,559	\$13,869
Supplemental disclosures:		
Cash paid for interest	\$2,441	\$4,018
Cash paid for income taxes	\$5,316	\$3,728

See accompanying notes to condensed consolidated financial statements.

SYMMETRY MEDICAL INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (In Thousands, Except Per Share Data; Unaudited)

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). 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 2010 consolidated financial statements and the notes thereto included in the Corporation's Annual Report on Form 10-K for fiscal year 2010.

The Corporation's fiscal year is the 52 or 53 week period ending on the Saturday closest to December 31. Fiscal year 2011 is a 52 week year ending December 31, 2011. The Corporation's interim quarters for 2011 are 13 weeks long and quarter-end dates have been set as April 2, 2011, July 2, 2011 and October 1, 2011. Fiscal year 2010 was a 52 week year (ending January 1, 2011). The Corporation's interim quarters for 2010 were 13 weeks long, ending April 3, 2010, July 3, 2010 and October 2, 2010. References in these condensed consolidated financial statements to the three months ended refer to these financial periods, respectively. The Corporation has evaluated subsequent events for the quarter ended October 1, 2011, up through the date the financial statements were issued which corresponds to the time of filing with the SEC.

On August 15, 2011, the Corporation acquired the assets of PSC's Olsen Medical division for \$11,000 in cash, subject to certain post-closing adjustments. Olsen Medical manufactures a full line of single-use and reusable bipolar and monopolar forceps, cords, electrosurgical pens/pencils, electrodes, and accessories. Olsen Medical's products are primarily sold in the United States and internationally through distributors. Refer to Note 11 for further discussion of this acquisition.

2. Inventories

Inventories consist of the following:

	October 1, 2011 (unaudited)	January 1, 2011
Raw material and supplies	\$ 18,918	\$ 14,407
Work-in-process	32,883	31,739
Finished goods	28,832	24,227

	\$ 80,633	\$ 70,373
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3. Property and Equipment

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

	October 1, 2011 (unaudited)	January 1, 2011
Land	\$ 6,423	\$ 6,412
Buildings and improvements (20 to 40 years)	42,073	41,152
Machinery and equipment (5 to 15 years)	148,777	144,626
Office equipment (3 to 5 years)	16,642	13,959
Construction-in-progress	6,765	7,276
	220,681	213,425
Less accumulated depreciation	(115,541)	(105,546)
	\$ 105,140	\$ 107,879

4. Intangible Assets

Intangible assets were acquired in connection with our business combinations over the past several years. The increase in intangible assets from January 1, 2011 is due to the Corporation's acquisition of Olsen Medical in August 2011. As of October 1, 2011, 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	\$ 2,326	\$ (1,407)	\$ 919
Acquired customers	18 years	45,552	(13,591)	31,961
Non-compete agreements	5 years	405	(349)	56
Intangible assets subject to amortization	18 years	48,283	(15,347)	32,936
Proprietary processes	Indefinite			3,530
In process research and development	Indefinite			610
Trademarks	Indefinite			5,248
Indefinite-lived intangible assets, other than goodwill				9,388
Total				\$ 42,324

As of January 1, 2011, 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	\$ 2,324	\$ (1,284)	\$ 1,040
Acquired customers	18 years	42,503	(11,669)	30,834
Non-compete agreements	5 years	590	(442)	148
Intangible assets subject to amortization	17 years	45,417	(13,395)	32,022
Proprietary processes	Indefinite			3,525
Trademarks	Indefinite			4,054
Indefinite-lived intangible assets, other than goodwill				7,579
Total				\$ 39,601

5. New Accounting Pronouncements

Presentation of Comprehensive Income: In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, "Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income," ("ASU 2011-05") which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of

shareholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. This standard will be effective for public companies during the interim and annual periods beginning after December 15, 2011 with early adoption permitted. The adoption of ASU 2011-05 will not have an impact on the Corporation's consolidated financial position, results of operations or cash flows as it only requires a change in the format of the current presentation.

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 arthroscopy, dental, laparoscopy, 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, and same or similar customers, those operations have been aggregated 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.

6. Segment Reporting (Continued)

Revenue to External Customers:

	Three Months Ended		Nine Months Ended	
	October 1, 2011 (unaudited)	October 2, 2010 (unaudited)	October 1, 2011 (unaudited)	October 2, 2010 (unaudited)
United States	\$ 60,541	\$ 67,508	\$ 198,293	\$ 194,436
Ireland	5,507	8,544	18,117	25,058
United Kingdom	6,590	6,906	22,149	20,649
Other foreign countries	11,401	8,580	35,979	24,713
Total net revenues	\$ 84,039	\$ 91,538	\$ 274,538	\$ 264,856

Concentration of Credit Risk:

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

Three months ended October 1, 2011 – Two customers represented approximately 28.5% and 12.7% of revenue, respectively.

Nine months ended October 1, 2011 – Two customers represented approximately 31.5% and 11.1% of revenue, respectively.

Three months ended October 2, 2010 – Two customers represented approximately 30.7% and 12.4% of revenue, respectively.

Nine months ended October 2, 2010 – Two customers represented approximately 31.9% and 10.6% of revenue, respectively.

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		Nine Months Ended	
	October 1, 2011 (unaudited)	October 2, 2010 (unaudited)	October 1, 2011 (unaudited)	October 2, 2010 (unaudited)
Instruments	\$ 33,583	\$ 36,027	\$ 110,593	\$ 103,096
Implants	26,735	28,332	80,436	85,058
Cases	17,573	21,495	65,565	60,127
Other	6,148	5,684	17,944	16,575
Total net revenues	\$ 84,039	\$ 91,538	\$ 274,538	\$ 264,856

7. Net Income Per Share

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

	Three Months Ended		Nine Months Ended	
	October 1, 2011 (unaudited)	October 2, 2010 (unaudited)	October 1, 2011 (unaudited)	October 2, 2010 (unaudited)
Earnings per share - Basic:				
Net income	\$ 527	\$ 3,572	\$ 6,064	\$ 9,682
Less: Undistributed earnings allocated to nonvested stock	(4)	(33)	(46)	(89)
Income available to common shares - Basic	523	3,539	6,018	9,593
Weighted-average common shares outstanding - Basic				
	35,546	35,456	35,537	35,449
Earnings per share - Basic	\$ 0.01	\$ 0.10	\$ 0.17	\$ 0.27
Earnings per share - Diluted:				
Net income	\$ 527	\$ 3,572	\$ 6,064	\$ 9,682
Less: Undistributed earnings allocated to nonvested stock	-	-	-	-
Income available to common shares - Diluted	527	3,572	6,064	9,682
Weighted-average common shares outstanding - Basic				
	35,546	35,456	35,537	35,449
Effect of dilution	475	414	463	353
Weighted-average common shares outstanding - Diluted	36,021	35,870	36,000	35,802
Earnings per share - Diluted	\$ 0.01	\$ 0.10	\$ 0.17	\$ 0.27

The diluted weighted-average share calculations for the three and nine months ended October 1, 2011 and October 2, 2010 do not include performance based restricted stock awarded in 2011 totaling 256 shares and in 2010 totaling 66 shares, respectively, due to the respective measurement period not being complete.

8. Commitments and Contingencies

Legal & Environmental Matters. The Corporation is involved, from time to time, in various contractual, product liability, patent (or intellectual property) and other claims and disputes incidental to its business. Currently, there is no environmental or other litigation pending or, to the knowledge of the Corporation, threatened, that the Corporation expects to have a material adverse effect on its financial condition, results of operations or liquidity. While litigation is subject to uncertainties and the outcome of litigated matters is not predictable with assurance, the Corporation currently believes that the disposition of all pending or, to the knowledge of the Corporation, threatened claims and disputes, individually or in the aggregate, should not have a material adverse effect on the Corporation's consolidated financial condition, results of operations or liquidity.

Following the discovery of certain accounting irregularities at our Sheffield, UK operating unit (as further described in this Form 10-Q at Part II, Item 1), the Audit Committee self-reported the matter to the staff of the Securities and Exchange Commission (SEC) in October 2007. Thereafter, the SEC commenced an informal inquiry into this matter. The Corporation has fully cooperated with the SEC in its investigation. At this time, the Corporation is unable to predict the timing of the ultimate resolution of this investigation or the impact thereof.

Unconditional Purchase Obligations. The Corporation has contracts to purchase minimum quantities of cobalt chrome, titanium and nickel alloys through July 2014. Based on contractual pricing at October 1, 2011, remaining minimum purchase obligations total \$26,719. Purchases under cobalt chrome, titanium and nickel alloys contracts total approximately \$8,980 for the nine month period ended October 1, 2011. These purchases are not in excess of our forecasted requirements. Additionally, as of October 1, 2011, the Corporation has \$1,923 of commitments to complete capital projects in progress.

9. Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net income, gains (losses) resulting from currency translations of foreign entities and unrealized gains (losses) on our derivative designated as a hedge. Comprehensive income (loss) consists of the following:

Three Months Ended		Nine Months Ended	
October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
(unaudited)		(unaudited)	