

Symmetry Medical Inc.  
Form 10-Q  
May 10, 2006

**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 April 1, 2006

**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)  
**220 W. Market Street, Warsaw, Indiana**  
(Address of principal executive offices)

**35-1996126**

(I.R.S. Employer  
Identification No.)  
**46580**  
(Zip code)

**Registrants telephone number, including area code (574) 268-2252**

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One)

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes  No

Edgar Filing: Symmetry Medical Inc. - Form 10-Q

The number of shares outstanding of the registrant's common stock as of April 1, 2006 was 34,880,329.

---

**TABLE OF CONTENTS**

	<b>Page</b>	
<b>PART I FINANCIAL INFORMATION</b>		
Item 1	Financial Statements:	
	<u>Condensed Consolidated Balance Sheets: As of April 1, 2006 and December 31, 2005</u>	1
	<u>Condensed Consolidated Statements of Operations: Three Months Ended April 1, 2006 and April 2, 2005</u>	2
	<u>Condensed Consolidated Statements of Cash Flows: Three Months Ended April 1, 2006 and April 2, 2005</u>	3
	<u>Notes to Condensed Consolidated Financial Statements</u>	4
<u>Item 2</u>	<u>Management's Discussion and Analysis of Results of Operations and Financial Condition</u>	10
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures about Market Risks</u>	14
<u>Item 4</u>	<u>Controls and Procedures</u>	14
<b><u>PART II OTHER INFORMATION</u></b>		
<u>Item 1</u>	<u>Legal Proceedings</u>	14
<u>Item 1A</u>	<u>Risk Factors</u>	14
<u>Item 2</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	14
<u>Item 5</u>	<u>Other Information</u>	14
<u>Item 6</u>	<u>Exhibits</u>	15
<u>Signatures</u>		16

Edgar Filing: Symmetry Medical Inc. - Form 10-Q

**Symmetry Medical Inc.**  
**Condensed Consolidated Balance Sheets**

	April 1, 2006 (In Thousands, Except Per Share Data) (unaudited)	December 31, 2005
<b>Assets:</b>		
Current Assets:		
Cash and cash equivalents	\$ 10,916	\$ 12,471
Accounts receivables, net	51,020	44,908
Inventories	39,625	38,783
Refundable income taxes	147	185
Deferred income taxes	2,003	1,867
Other current assets	3,998	4,032
Total current assets	107,709	102,246
Property and equipment, net	94,895	93,106
Derivative valuation asset	585	584
Goodwill	124,877	124,518
Intangible assets, net of accumulated amortization	16,217	16,327
Other assets	815	864
Total Assets	\$ 345,098	\$ 337,645
<b>Liabilities and Shareholders Equity:</b>		
Current Liabilities:		
Accounts payable	\$ 16,533	\$ 18,983
Accrued wages and benefits	9,213	10,997
Other accrued expenses	2,768	2,696
Income tax payable	2,811	1,241
Revolving line of credit	1,601	
Current portion of capital lease obligations	3,194	3,239
Current portion of long-term debt	1,750	1,313
Total current liabilities	37,870	38,469
Deferred income taxes	11,042	11,139
Capital lease obligations, less current portion	7,539	8,532
Long-term debt, less current portion	24,500	26,250
Total Liabilities	80,951	84,390
Commitments and contingencies (Note 10)		
Shareholders Equity:		
Common Stock, \$.0001 par value; 72,410 shares authorized; shares issued (April 1, 2006 34,880; December 31, 2005 34,704)	3	3
Additional paid-in capital	270,546	268,973
Retained earnings (deficit)	(9,001 )	(17,378 )
Accumulated other comprehensive income	2,599	1,657
Total Shareholders Equity	264,147	253,255
Total Liabilities and Shareholders Equity	\$ 345,098	\$ 337,645

See accompanying notes to condensed consolidated financial statements.

**Symmetry Medical Inc.**  
**Condensed Consolidated Statements of Operations**

	<b>Three Months Ended</b>	
	<b>April 1,</b>	<b>April 2,</b>
	<b>2006</b>	<b>2005</b>
	<b>(In Thousands, Except Per Share Data)</b>	
	<b>(unaudited)</b>	<b>(unaudited)</b>
Revenue	\$ 69,613	\$ 63,760
Cost of Revenue	49,272	44,373
Gross Profit	20,341	19,387
Selling, general, and administrative expenses	7,040	6,948
Operating Income	13,301	12,439
Other (income) expense:		
Interest expense	661	939
Derivatives valuation (gain)/loss	(1 )	(296 )
Other	(219 )	202
Income before income taxes	12,860	11,594
Income tax expense	4,483	3,930
Net income applicable to common shareholders	\$ 8,377	\$ 7,664
Net income (loss) applicable to common shareholders per share:		
Basic	\$ 0.24	\$ 0.23
Diluted	\$ 0.24	\$ 0.22
Weighted average common shares and equivalent shares outstanding:		
Basic	34,717	33,175
Diluted	35,137	34,116

See accompanying notes to condensed consolidated financial statements.

**Symmetry Medical Inc.**  
**Condensed Consolidated Statements of Cash Flows**

	<b>Three Months Ended</b> <b>April 1,</b> <b>2006</b> <b>(In Thousands)</b> <b>(unaudited)</b>	<b>April 2,</b> <b>2005</b> <b>(unaudited)</b>
<b>Operating activities</b>		
Net Income	\$ 8,377	\$ 7,664
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	3,704	3,003
Amortization	151	153
Loss from sale of assets	13	1
Deferred income tax provision	(233 )	
Excess tax benefit from stock-based compensation	(1,062 )	
Income tax benefits from exercise of stock options		55
Stock-based compensation	108	
Derivative valuation change	(1 )	(296 )
Change in operating assets and liabilities:		
Accounts receivable	(4,406 )	(7,306 )
Other assets	108	414
Inventories	(620 )	(1,543 )
Accounts payable	(4,109 )	336
Accrued expenses and other	697	2,900
Net cash provided by operating activities	2,727	5,381
<b>Investing activities</b>		
Purchases of property and equipment	(5,085 )	(8,933 )
Net cash used in investing activities	(5,085 )	(8,933 )
<b>Financing activities</b>		
Proceeds from bank revolver	4,641	5,643
Payments on bank revolver	(3,028 )	(1,864 )
Payments on long-term debt and capital lease obligations	(2,384 )	(2,305 )
Proceeds from the issuance of common and preferred stock, net of expenses	404	2
Excess tax benefit from stock-based compensation	1,062	
Net cash provided by financing activities	695	1,476
Effect of exchange rate changes on cash	108	(69 )
Net increase (decrease) in cash and cash equivalents	(1,555 )	(2,145 )
Cash and cash equivalents at beginning of period	12,471	4,849
Cash and cash equivalents at end of period	\$ 10,916	\$ 2,704
Supplemental disclosures:		
Cash paid for interest	\$ 512	\$ 610
Cash paid for income taxes	\$ 2,034	\$ 563

See accompanying notes to condensed consolidated financial statements.

**Symmetry Medical Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(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., Othy Limited, Poly-Vac S.A. and Thornton Precision Components Limited. The Corporation is a global supplier of integrated products and services 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 material adjustments (consisting only of normal recurring adjustments) 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 consolidated financial statements and the notes thereto included in the Corporation's Annual Report on Form 10-K for fiscal year 2005.

Certain prior year amounts have been reclassified to conform to the current-year presentation. These reclassifications had no impact on our results of operations or financial position.

The Corporation's year end is the 52 or 53 week period ending the Saturday closest to December 31. Fiscal year 2006 and 2005 are 52 week years. As such, interim quarters are 13 weeks long ending the Saturday closest to March 31, June 30, or September 30. References in these consolidated financial statements to the three months ended refer to these financial periods, respectively.

**2. Inventories**

Inventories consist of the following:

	<b>April 1, 2006</b>	<b>December 31, 2005</b>
Raw material and supplies	\$ 6,726	\$ 7,325
Work-in-process	24,388	23,418
Finished goods	8,511	8,040
	<b>\$ 39,625</b>	<b>\$ 38,783</b>

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

### 3. Property and Equipment

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

	April 1, 2006	December 31, 2005
Land	\$ 1,288	\$ 1,283
Buildings and improvements (20 to 40 years)	24,609	24,128
Machinery and equipment (5 to 15 years)	103,630	101,437
Office equipment (3 to 5 years)	5,778	5,421
Construction-in-progress	5,741	5,695
	141,046	137,964
Less accumulated depreciation	(46,151 )	(44,858 )
	\$ 94,895	\$ 93,106

### 4. Intangible Assets

Intangible assets subject to amortization consist of technology and customer related intangible assets acquired in connection with our acquisition of Mettis (UK) Limited on June 11, 2003. These assets (\$12,528, net, at April 1, 2006 and \$12,656, net, at December 31, 2005) are being amortized using the straight-line method over 9 to 25 years. The Corporation has \$3,689 and \$3,671 of indefinite lived intangible assets at April 1, 2006 and December 31, 2005, respectively.

### 5. New Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting (SFAS) No. 151, Inventory Costs an amendment of Accounting Research Bulletin (ARB) No. 43, Chapter 4. The Statement clarifies that abnormal amounts of idle facility expense, freight, handling costs and wasted materials should be recognized as current-period expenses regardless of how abnormal the circumstances. In addition, this Statement requires that the allocation of fixed overheads to the costs of conversion be based upon normal production capacity levels. The Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. This Statement did not have a material effect on our financial position, results of operations or cash flows.

### 6. Stock-Based Compensation

The Corporation adopted SFAS 123 (revised 2004), Share-Based Payment on January 1, 2006 (SFAS 123R). SFAS 123R, which revised SFAS 123, Accounting for Stock-Based Compensation, superseded APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS 95, Statement of Cash Flows. Statement 123R requires that all share-based payments to employees, including grants of employee stock options be recognized in the financial statements based upon their fair value. The Corporation had previously followed APB No. 25 in accounting for its stock options and accordingly, no compensation cost had been previously recognized.

The Corporation has adopted SFAS 123R using the modified prospective method. Compensation cost has been recognized for all share-based payments in the consolidated financial statements in 2006 based upon the fair value of the stock or option grant. Prior period results have not been restated.



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

**6. Stock-Based Compensation (Continued)**

As a result of adopting SFAS 123R, the Corporation's income before income taxes and net income for the quarter ended April 1, 2006 are \$37 and \$22 lower, respectively, than if it had continued to account for share-based compensation under Opinion 25. Basic and diluted earnings per share for the quarter ended April 1, 2006 would not have changed from \$0.24 if the Corporation had not adopted SFAS 123R.

Prior to the adoption of SFAS 123R, the Corporation presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Consolidated Statements of Cash Flows. SFAS 123R requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. The \$1,062 excess tax benefit classified as a financing cash inflow would have been classified as an operating cash inflow if the Corporation had not adopted SFAS 123R.

Statement 123, as amended, required pro forma presentation as if compensation costs had been expensed under the fair value method. For purpose of pro forma disclosure, the estimated fair value of stock options at the grant date is amortized to expense over the vesting period. The following table illustrates the effect on net income and net income per share as if compensation expense had been recognized in the first quarter of 2005 (in thousands, except for per share amounts):

Reported net income applicable to common shareholders	\$ 7,664
Pro forma stock-based compensation expense (net of tax)	(46 )
Stock-based employee compensation recorded (net of tax)	4
Adjusted net income	\$ 7,622
Basic net income per share applicable to common:	
Reported net income per share	\$ 0.23
Stock-based compensation expense (net of tax) per share	
Adjusted net income per share	\$ 0.23
Diluted net income per share applicable to common:	
Reported net income per share	\$ 0.22
Stock-based compensation expense (net of tax) per share	
Adjusted net income per share	\$ 0.22

During the three month period ended April 1, 2006, the Corporation issued 145 shares of common stock through the exercise of stock options and 29 shares of common stock through the exercise of warrants. The compensation cost related to non-vested awards not yet recognized is approximately \$66, net, and the weighted average period over which it is expected to be recognized is approximately two years.

**7. Income Taxes**

The Corporation's effective tax rate was 34.9% for the three month period ended April 1, 2006 as compared to 33.9% for the same periods in 2005. The increase in the rate from the 2005 effective tax rate was primarily due to the expiration of the research tax credit on December 31, 2005 and other tax benefits. The United States government has not yet reinstated this tax credit bill.

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

**8. 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 has a special services business serving primarily aerospace customers, which does not meet the quantitative disclosure requirements of SFAS 131. The Corporation manages its business and operates in a single reportable business segment. Because of the similar economic characteristics of the 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 Corporation is a multi-national corporation with operations in the United States, the United Kingdom and France. 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. While exposure to variability in foreign currency exists, the Corporation does not believe it is significant to its operations and any variability is somewhat offset through the location of its manufacturing facilities. Revenue is attributed to geographic locations based on the location to which we ship our products.

*Revenue from External Customers:*

	<b>Three Months Ended</b>	
	<b>April 1, 2006</b>	<b>April 2, 2005</b>
United States	\$ 46,347	\$ 41,981
Ireland	7,728	8,317
United Kingdom	9,525	6,670
Other foreign countries	6,013	6,792
<b>Total net revenues</b>	<b>\$ 69,613</b>	<b>\$ 63,760</b>

*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:

Quarter ended April 1, 2006 Two customers representing approximately 30% and 17% of revenue, respectively.

Quarter ended April 2, 2005 Three customers representing approximately 29%, 14% and 14% of revenue, respectively.

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

**8. Segment Reporting (Continued)**

Following is a summary of the composition by product category of the Corporation's revenue to external customers. Revenue of the specialty services business is included in the "other" category.

	<b>Three Months Ended</b>	
	<b>April 1, 2006</b>	<b>April 2, 2005</b>
Implants	\$ 26,591	\$ 22,957
Instruments	21,578	23,350
Cases	14,671	13,844
Other	6,773	3,609
<b>Total net revenues</b>	<b>\$ 69,613</b>	<b>\$ 63,760</b>

**9. Net Income (Loss) Per Share**

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

	<b>Three Months Ended</b>	
	<b>April 1, 2006</b>	<b>April 2, 2005</b>
Net income available to common shareholders	\$ 8,377	\$ 7,664
Weighted-average common shares outstanding basic	34,717	33,175
Effect of stock options, restricted stock and stock warrants	420	941
Weighted-average common shares outstanding and assumed conversions		