

Symmetry Medical Inc.
Form 10-Q
May 09, 2007

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 **March 31, 2007**

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.)

220 W. Market Street, Warsaw, Indiana

(Address of principal executive offices)

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

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

The number of shares outstanding of the registrant's common stock as of April 10, 2007 was 35,293,651.

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Symmetry Medical Inc.
Condensed Consolidated Balance Sheets

	March 31, 2007 (In Thousands, Except Per Share Data) (unaudited)	December 30, 2006
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 6,094	\$ 11,721
Accounts receivables, net	55,267	47,506
Inventories	49,253	47,392
Refundable income taxes	112	111
Deferred income taxes	3,534	2,826
Other current assets	3,820	3,965
Total current assets	118,080	113,521
Property and equipment, net	109,413	106,147
Goodwill	157,885	156,241
Intangible assets, net of accumulated amortization	36,830	33,257
Other assets	922	981
Total Assets	\$ 423,130	\$ 410,147
Liabilities and Shareholders' Equity:		
Current Liabilities:		
Accounts payable	\$ 19,170	\$ 14,860
Accrued wages and benefits	10,168	7,816
Other accrued expenses	4,723	4,104
Income tax payable	1,281	850
Deferred income taxes	337	249
Derivative valuation liability	546	1,184
Revolving line of credit	2,215	
Current portion of capital lease obligations	2,956	3,500
Current portion of long-term debt	7,837	5,550
Total current liabilities	49,233	38,113
Deferred income taxes	11,662	11,832
Derivative valuation liability	893	549
Capital lease obligations, less current portion	5,400	5,142
Long-term debt, less current portion	59,110	63,650
Total Liabilities	126,298	119,286
Commitments and contingencies (Note 8)		
Shareholders' Equity:		
Common Stock, \$.0001 par value; 72,410 shares authorized; shares issued March 31, 2007--35,294; December 30, 2006--35,107)	4	4
Additional paid-in capital	272,977	271,388
Retained earnings	10,481	6,771
Accumulated other comprehensive income	13,370	12,698
Total Shareholders' Equity	296,832	290,861
Total Liabilities and Shareholders' Equity	\$ 423,130	\$ 410,147

See accompanying notes to condensed consolidated financial statements.

Symmetry Medical Inc.
Condensed Consolidated Statements of Operations

	Three Months Ended March 31, 2007 (In Thousands, Except Per Share Data) (unaudited)	April 1, 2006 (unaudited)
Revenue	\$ 67,519	\$ 69,613
Cost of Revenue	52,558	49,272
Gross Profit	14,961	20,341
Selling, general, and administrative expenses	7,873	7,040
Operating Income	7,088	13,301
Other (income) expense:		
Interest expense	1,587	661
Derivatives valuation (gain)/loss	(295)	(1)
Other	546	(219)
Income before income taxes	5,250	12,860
Income tax expense	1,540	4,483
Net income	\$ 3,710	\$ 8,377
Net income per share:		
Basic	\$ 0.11	\$ 0.24
Diluted	\$ 0.11	\$ 0.24
Weighted average common shares and equivalent shares outstanding:		
Basic	34,973	34,717
Diluted	35,194	35,137

See accompanying notes to condensed consolidated financial statements.

Symmetry Medical Inc.
Condensed Consolidated Statements of Cash Flows

	Three Months Ended	
	March 31,	April 1,
	2007	
	(In Thousands)	
	(unaudited)	(unaudited)
Operating activities		
Net Income	\$ 3,710	\$ 8,377
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	4,179	3,704
Amortization	494	151
Foreign currency transaction (gain) loss	(11)	(284)
Net loss on sale of assets	2	13
Deferred income tax provision	(890)	(233)
Excess tax benefit from stock-based compensation	(796)	(1,062)
Stock-based compensation	244	108
Derivative valuation change	(295)	(1)
Change in operating assets and liabilities:		
Accounts receivable	(5,462)	(4,406)
Other assets	190	108
Inventories	(175)	(620)
Accounts payable	3,591	(4,109)
Accrued expenses and other	2,976	981
Net cash provided by operating activities	7,757	2,727
Investing activities		
Purchases of property and equipment	(3,473)	(5,085)
Proceeds from the sale of fixed assets	28	
Acquisition, net of cash received	(10,317)	
Net cash used in investing activities	(13,762)	(5,085)
Financing activities		
Proceeds from bank revolver	16,473	4,641
Payments on bank revolver	(16,502)	(3,028)
Payments on long-term debt and capital lease obligations	(903)	(2,384)
Proceeds from the issuance of common stock, net of expenses	549	404
Excess tax benefit from stock-based compensation	796	1,062
Net cash provided by financing activities	413	695
Effect of exchange rate changes on cash	(35)	108
Net increase (decrease) in cash and cash equivalents	(5,627)	(1,555)
Cash and cash equivalents at beginning of period	11,721	12,471
Cash and cash equivalents at end of period	\$ 6,094	\$ 10,916
Supplemental disclosures:		
Cash paid for interest	\$ 1,606	\$ 512
Cash paid for income taxes	\$ 1,449	\$ 2,034

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., Riley Medical Inc., Symmetry Medical Switzerland 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 and Clamonta 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 2006.

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 2007 and 2006 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.

Riley Medical Inc. and Symmetry Medical Switzerland SA were acquired on May 2, 2006 and are collectively referred to as Riley Medical. Symmetry Medical Everest LLC and Everest Metal International Limited were acquired on August 31, 2006 and are collectively referred to as Everest Metal. The Corporation's Annual Report on Form 10-K for fiscal year 2006 contains additional information on these acquisitions.

On January 9, 2007, the Corporation's subsidiary Thornton Precision Components Limited (Thornton) acquired all of the stock of Whedon Limited, a privately owned company based in Warwickshire, UK and the holding company of Clamonta Limited (collectively Clamonta Ltd), for \$10,317 in cash, subject to certain post closing adjustments. Clamonta Ltd manufactures aerospace products for the global aerospace industry.

2. Inventories

Inventories consist of the following:

	March 31, 2007	December 30, 2006
Raw material and supplies	\$ 8,234	\$ 10,661
Work-in-process	30,256	25,076
Finished goods	10,763	11,655
	\$ 49,253	\$ 47,392

3. Property and Equipment

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

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	March 31, 2007	December 30, 2006
Land	\$ 2,321	\$ 1,531
Buildings and improvements (20 to 40 years)	30,823	29,957
Machinery and equipment (5 to 15 years)	126,588	121,457
Office equipment (3 to 5 years)	6,911	6,832
Construction-in-progress	5,253	4,800
	171,896	164,577
Less accumulated depreciation	(62,483)	(58,430)
	\$ 109,413	\$ 106,147

4. Intangible Assets

Intangible assets acquired in connection with our acquisitions of Mettis (UK) Limited, Riley Medical, Everest Metal and Clamonta Ltd.

As of March 31, 2007, 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	12 years	\$ 1,575	\$ (413)	\$ 1,162
Acquired customers	19 years	31,525	(2,875)	28,650
Non-compete agreements	5 years	402	(47)	355
Intangible assets subject to amortization		33,502	(3,335)	30,167
Proprietary processes	Indefinite			3,892
Trademarks	Indefinite			2,771
Indefinite-lived intangible assets, other than goodwill				6,663
Total				\$ 36,830

5. New Accounting Pronouncements

Accounting for Uncertainty in Income Taxes

The Corporation adopted the provisions of FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, on December 31, 2006. The implementation of FIN 48 had no impact on the Corporation's financial position or results of operations. As of the beginning of fiscal year 2007, the Corporation had unrecognized tax benefits of \$339. There has been no significant change in the unrecognized tax benefits during the first quarter ending March 31, 2007.

The Corporation recognizes interest and penalties related to unrecognized tax benefits through income tax expense. The Corporation has not accrued any interest or penalties as of March 31, 2007.

The Corporation is subject to periodic audits by domestic and foreign tax authorities. Currently, the Corporation is undergoing routine periodic audits in both domestic and foreign tax jurisdictions. It is reasonably possible that the amounts of unrecognized tax benefits could change in the next 12 months as a result of the audits. It is impossible to estimate the significance of such a potential change at this time. For the majority of tax jurisdictions, the Corporation is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for fiscal years before 2003.

The Fair Value Option for Financial Assets and Financial Liabilities

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In February 2007, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This Statement permits entities to choose to measure many financial instruments and certain other instruments at fair value. This Statement is effective for fiscal years beginning after November 15, 2007. The adoption of this Statement is not expected to have a material impact on the Corporation's financial position, results of operations or cash flows.

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 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 in multiple operating segments. 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.

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The Corporation is a multi-national corporation with operations in the United States, the United Kingdom, Ireland, Switzerland, France 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. 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:

	Three Months Ended	
	March 31, 2007	April 1, 2006
United States	\$ 39,359	\$ 46,347
United Kingdom	13,743	7,728
Ireland	6,569	9,525
Other foreign countries	7,848	6,013
Total net revenues	\$ 67,519	\$ 69,613

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 March 31, 2007 Four customers representing approximately 17%, 12%, 11% and 11% of revenue, respectively.

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

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.

	Three Months Ended	
	March 31, 2007	April 1, 2006
Implants	\$ 24,486	\$ 26,591
Instruments	15,243	21,578
Cases	17,586	14,671
Other	10,204	6,773
Total net revenues	\$ 67,519	\$ 69,613

7. Net Income Per Share

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

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	Three Months Ended	
	March 31, 2007	April 1, 2006
Net income	\$ 3,710	\$ 8,377
Weighted-average common shares outstanding basic	34,973	34,717
Effect of stock options, restricted stock and stock warrants	221	420
Weighted-average common shares outstanding and assumed conversions	35,194	35,137
Net income per share:		
Basic	\$ 0.11	\$ 0.24
Diluted	\$ 0.11	\$ 0.24

During the three month period ended March 31, 2007, the Corporation issued 178 shares of common stock through the exercise of stock options.

8. Commitments and Contingencies

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 affect 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.

9. Comprehensive Income

Comprehensive income is comprised of net income and gains and losses resulting from currency translations of foreign entities. Comprehensive income consists of the following:

	Three Months Ended	
	March 31, 2007	April 1, 2006
Net Income	\$ 3,710	\$ 8,377