

Symmetry Medical Inc.  
Form 10-Q  
November 09, 2012

**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 September 29, 2012**

**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

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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

The number of shares outstanding of the registrant's common stock as of November 8, 2012 was 36,787,515 shares.

## TABLE OF CONTENTS

### PART I FINANCIAL INFORMATION

Item 1	Financial Statements:	4
	Condensed Consolidated Balance Sheets: As of September 29, 2012 and December 31, 2011	4
	Condensed Consolidated Statements of Operations: Three and Nine Months Ended September 29, 2012 and October 1, 2011	5
	Condensed Consolidated Statements of Comprehensive Income: Three and Nine Months Ended September 29, 2012 and October 1, 2011	6
	Condensed Consolidated Statements of Cash Flows: Nine Months Ended September 29, 2012 and October 1, 2011	7
	Notes to Condensed Consolidated Financial Statements	8
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3	Quantitative and Qualitative Disclosures about Market Risk	27
Item 4	Controls and Procedures	27

### PART II OTHER INFORMATION

Item 1A	Risk Factors	28
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	28
Item 6	Exhibits	28
	Signatures	29

### **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 2011 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](http://www.sec.gov), and on our website, [www.symmetrymedical.com](http://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)**

	September 29, 2012 (unaudited)	December 31, 2011
<b>ASSETS:</b>		
Current Assets:		
Cash and cash equivalents	\$ 12,366	\$ 18,931
Accounts receivable, net	53,035	51,835
Inventories	72,872	84,678
Refundable income taxes	3,866	5,090
Deferred income taxes	10,290	7,535
Derivative valuation asset	179	-
Other current assets	4,005	4,863
Total current assets	156,613	172,932
Property and equipment, net	100,760	103,363
Goodwill	228,783	229,112
Intangible assets, net of accumulated amortization	118,414	124,276
Other assets	8,203	9,182
Total Assets	\$ 612,773	\$ 638,865
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>		
Current Liabilities:		
Accounts payable	\$ 26,655	\$ 23,343
Accrued wages and benefits	11,786	7,637
Other accrued expenses	7,366	5,825
Accrued income taxes	67	522
Derivative valuation liability	495	-
Deferred income taxes	-	39
Revolving line of credit	718	6,567
Current portion of capital lease obligations	522	483

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Current portion of long-term debt	11,111	5,904
Total current liabilities	58,720	50,320
Accrued income taxes	6,981	6,844
Deferred income taxes	19,989	18,459
Derivative valuation liability	3,868	-
Other liabilities	654	619
Capital lease obligations, less current portion	1,514	1,907
Long-term debt, less current portion	210,777	259,317
Total Liabilities	302,503	337,466
Commitments and contingencies		
Shareholders' Equity:		
Common Stock, \$.0001 par value; 75,000 shares authorized; shares issued September 29, 2012--36,788; December 31, 2011--36,426	4	4
Additional paid-in capital	286,619	283,071
Retained earnings	23,344	17,140
Accumulated other comprehensive income	303	1,184
Total Shareholders' Equity	310,270	301,399
Total Liabilities and Shareholders' Equity	\$ 612,773	\$ 638,865

*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	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Revenue	\$ 100,929	\$ 84,039	\$ 303,949	\$ 274,538
Cost of revenue	72,703	68,285	223,808	217,233
Gross profit	28,226	15,754	80,141	57,305
Research and development expenses	1,293	966	2,998	3,031
Sales and marketing expenses	6,107	4,140	19,868	13,354
General and administrative expenses	10,730	8,733	32,331	26,084
Facility closure and severance	(76 )	253	596	2,526
Operating Income	10,172	1,662	24,348	12,310
Other (income) expense:				
Interest expense	4,737	964	14,905	2,754
Derivatives valuation gain	(116 )	-	(179 )	-
Other	(108 )	(160 )	(562 )	591
Income before income taxes	5,659	858	10,184	8,965
Income tax expense	1,921	331	3,980	2,901
Net income	\$ 3,738	\$ 527	\$ 6,204	\$ 6,064
Net income per share:				
Basic	\$ 0.10	\$ 0.01	\$ 0.17	\$ 0.17
Diluted	\$ 0.10	\$ 0.01	\$ 0.17	\$ 0.17
Weighted average common shares and equivalent shares outstanding:				
Basic	36,044	35,546	35,951	35,537
Diluted	36,512	36,021	36,360	36,000

See accompanying notes to condensed consolidated financial statements.

**SYMMETRY MEDICAL INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(In Thousands; Unaudited)**

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Net income	\$ 3,738	\$ 527	\$ 6,204	\$ 6,064
Other comprehensive income (loss)				
Foreign currency translation adjustments	2,367	(4,378 )	1,799	698
Net unrealized losses on derivative instruments:				
Unrealized holding losses, net of taxes	(480 )	-	(2,634 )	-
Reclassification adjustment for realized losses included in net income	(46 )	-	(46 )	-
Comprehensive income (loss)	\$ 5,579	\$ (3,851 )	\$ 5,323	\$ 6,762

*See accompanying notes to condensed consolidated financial statements.*



**SYMMETRY MEDICAL INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW****(In Thousands; Unaudited)**

	Nine Months Ended September 29, 2012	October 1, 2011
Operating activities		
Net income	\$ 6,204	\$ 6,064
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	12,869	13,811
Amortization of intangible assets	6,037	2,138
Amortization of debt issuance costs	1,289	253
Interest paid in kind	1,002	-
Net (gain) loss on sale of assets	(96 )	77
Deferred income tax provision	507	(283 )
Excess tax benefit from stock-based compensation	(294 )	-
Stock-based compensation	3,076	2,174
Derivative valuation gain	(179 )	-
Foreign currency transaction gain	(173 )	(1,474 )
Change in operating assets and liabilities:		
Accounts receivable	(720 )	2,873
Other assets	583	(1,499 )
Inventories	12,663	(8,093 )
Current income taxes	762	(2,215 )
Accounts payable	2,518	(942 )
	5,912	5,314

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Accrued expenses and other		
Net cash provided by operating activities	51,960	18,198
Investing activities		
Purchases of property and equipment	(9,128 )	(10,426 )
Proceeds from the sale of property and equipment	319	113
Acquisitions	-	(11,000 )
Net cash used in investing activities	(8,809 )	(21,313 )
Financing activities		
Proceeds from Bank Revolver	21,839	52,819
Payments on Bank Revolver	(62,712 )	(45,319 )
Proceeds from (payments on) short term borrowings, net	(5,844 )	2,441
Payments on bank term loans and capital lease obligations	(3,490 )	(1,432 )
Proceeds from the issuance of common stock, net	178	79
Excess tax benefit from stock-based compensation	294	-
Net cash provided by (used in) financing activities	(49,735 )	8,588
Effect of exchange rate changes on cash	19	19
Net increase (decrease) in cash and cash equivalents	(6,565 )	5,492
Cash and cash equivalents at beginning of period	18,931	15,067
Cash and cash equivalents at end of period	\$ 12,366	\$ 20,559

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Supplemental disclosures:

Cash paid for interest	\$	11,904	\$	2,441
Cash paid for income taxes	\$	2,363	\$	5,316

*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), which operates in two reportable segments: (1) Original Equipment Manufacturer (“OEM”) Solutions and (2) Symmetry Surgical. The Corporation is a global supplier of integrated products consisting primarily of surgical instruments, implants and cases to orthopedic and other medical device companies. OEM Solutions primarily designs, develops and manufactures surgical instruments, implants and cases for orthopedic device markets. Symmetry Surgical is the Corporation’s hospital direct business which sells a broad range of reusable stainless steel and titanium surgical hand-held instruments and retractor systems, sterile disposable surgical products, and sterilization containers.

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 2011 consolidated financial statements and the notes thereto included in the Corporation’s Annual Report on Form 10-K for fiscal year 2011.

The Corporation’s fiscal year is the 52 or 53 week period ending on the Saturday closest to December 31. Fiscal year 2012 is a 52 week year ending December 29, 2012. The Corporation’s interim quarters for 2012 are 13 weeks long and quarter-end dates have been set as March 31, 2012, June 30, 2012 and September 29, 2012. Fiscal year 2011 was a 52 week year (ending December 31, 2011). The Corporation’s interim quarters for 2011 were 13 weeks long, ending April 2, 2011, July 2, 2011 and October 1, 2011. References in these condensed consolidated financial statements to the three months ended refer to these financial periods, respectively.

**2. Acquisitions**

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Results of the following acquisitions are included in the statement of operations from the date of acquisition.

On August 15, 2011, the Corporation acquired substantially all of the assets of PSC's Olsen Medical division (Olsen Medical) for \$11,000 in cash. 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 directly to hospitals in the U.S. and internationally through distributors.

The aggregate purchase price of \$11,000 was allocated to the opening balance sheet as follows:

Current assets	\$3,001
PP&E	1,003
Acquired customers (amortized over 15 years)	3,040
In process R&D	610
Trademarks (indefinite-lived)	1,190
Goodwill	2,912
Current liabilities	(756 )
Purchase price, net	\$11,000

On December 29, 2011, the Corporation acquired the surgical instruments business of Codman & Shurtleff, Inc., a Johnson & Johnson Company, for \$165,687 in cash. Codman surgical instruments include, but are not limited to, reusable stainless steel and titanium surgical hand-held instruments and retractor systems and sterile disposable surgical products.

**2. Acquisitions (Continued)**

The aggregate purchase price of \$165,687 was preliminarily allocated to the opening balance sheet as follows:

Current assets	\$ 10,431
PP&E	114
Acquired customers (amortized over 20 years)	80,840
Trademarks (indefinite-lived)	3,380
Goodwill	71,710
Current liabilities	(169 )
Long term liabilities	(619 )
 Purchase price, net	 \$ 165,687

The purchase price allocation for the acquisition of the Codman surgical instruments business is preliminary and therefore subject to adjustment.

*Unaudited Proforma Results.* The following table represents the unaudited proforma results of the Corporation's operations had the acquisitions of Codman surgical instruments business and Olsen Medical been completed as of the beginning of the periods presented:

Three Months  
Ended