

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., Ultrexx, 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

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 (unaudited) | June 28, 2008 (unaudited) | July 4, 2009 (unaudited) | June 28, 2008 (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.

| | Three Months Ended | | Six Months Ended | |
|---|--------------------------------|---------------------------------|--------------------------------|---------------------------------|
| | July 4, 2009 (unaudited) | June 28, 2008 (unaudited) | July 4, 2009 (unaudited) | June 28, 2008 (unaudited) |
| Numerator: | | | | |
| Net income | \$ 8,975 | \$ 6,202 | \$ 15,822 | \$ 10,169 |
| Denominator: | | | | |
| Weighted-average shares outstanding: | | | | |
| Basic | 35,326 | 35,155 | 35,289 | 35,154 |
| Effect of dilutive stock options, restricted stock and stock warrants | 203 | 168 | 148 | 175 |
| Diluted | 35,529 | 35,323 | 35,437 | 35,329 |
| Net income per share: | | | | |
| Basic | \$ 0.25 | \$ 0.18 | \$ 0.45 | \$ 0.29 |
| Diluted | \$ 0.25 | \$ 0.17 | \$ 0.44 | \$ 0.28 |

8. Commitments and Contingencies

Legal & Environmental. 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.

Unconditional Purchase Obligations. The Corporation has contracts to purchase minimum quantities of cobalt chrome and titanium through December 2011. Based on contractual pricing at July 4, 2009, the minimum purchase obligations totaled \$19,626. Purchases under 2009 contracts totaled approximately \$8,440 as of July 4, 2009. These purchases are not in excess of our forecasted requirements.

8. Commitments and Contingencies (Continued)

Other. 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). 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.

9. Comprehensive Income

Comprehensive income is comprised of net income, gains (losses) resulting from currency translations of foreign entities and unrealized losses on our derivative designated as a hedge under SFAS 133. Comprehensive income consists of the following:

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------------|------------------|------------------|
| | July 4, 2009 | June 28, 2008 | July 4, 2009 | June 28, 2008 |
| | (unaudited) | | (unaudited) | |
| Net Income | \$ 8,975 | \$ 6,202 | \$ 15,822 | \$ 10,169 |
| Foreign currency translation adjustments | 5,408 | (262) | 5,018 | 2,480 |
| Derivative, net of tax benefit (1) | (58) | - | (100) | - |
| Comprehensive income | \$ 14,325 | \$ 5,940 | \$ 20,740 | \$ 12,649 |

(1) Derivatives are net of income tax benefits of \$38 and \$67 for the three and six month periods ended July 4, 2009, respectively.

10. Acquisitions

Results of the following acquisition are included in the Statement of Operations from the date of acquisition.

On January 25, 2008, the Corporation acquired substantially all the assets and real property of DePuy Orthopaedics, Inc.'s ("DePuy") New Bedford, Massachusetts instrument manufacturing facility ("New Bedford") for \$45,246 in cash. This facility manufactures orthopedic instruments as well as general surgical instruments and small implants.

As of July 4, 2009, the aggregate purchase price was allocated to the opening balance sheet as follows:

| | |
|--|-----------|
| Current assets | \$ 7,819 |
| PP&E | 22,101 |
| Acquired customers (amortized over 15 years) | 5,130 |
| Goodwill | 10,196 |
| Purchase price, net | \$ 45,246 |

Unaudited Pro-forma Results The following table represents the pro-forma results of the Corporation's operations had the acquisition of New Bedford been completed as of the beginning of the periods presented:

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| | Six Months Ended | |
|----------------------------|------------------|------------------|
| | July 4, 2009 | June 28, 2008 |
| Revenue | \$ 202,376 | \$ 214,326 |
| Net income | 15,822 | 10,235 |
| Earnings per share—basic | \$ 0.45 | \$ 0.29 |
| Earnings per share—diluted | \$ 0.44 | \$ 0.28 |

11. Derivatives

The Corporation utilizes derivative instruments to minimize the volatility of cash flows and income statement impacts associated with interest rate payments on its variable rate debt. In accordance with Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, which was amended in June 2000 by SFAS No. 138 and in May 2003 by SFAS No. 149 (collectively referred to as “SFAS 133”), the Corporation recognizes all derivative instruments as either assets or liabilities at fair value on the consolidated balance sheets. The Corporation utilizes third party valuations to determine the fair value of these derivatives. The Corporation considers its derivative instrument valuations to be Level 2 fair value measurements under SFAS 157 (see Note 12).

11. Derivatives (Continued)

To the extent a derivative instrument is designated effective as a cash flow hedge of an exposure to changes in the fair value of a future transaction, the change in fair value of the derivative is deferred in accumulated other comprehensive loss, a component of shareholders' equity in the condensed consolidated balance sheets, until the underlying transaction hedged is recognized in the consolidated statements of operations. The Corporation accounts for certain derivatives hedging the payment of interest as cash flow hedges and the impact of the hedge being reclassified to interest expense in the consolidated statements of operations, upon payment of interest.

The Corporation's profitability and cash flows are affected by changes in interest rates, specifically the LIBOR rate. The primary purpose of the Corporation's interest rate risk management activities is to hedge its exposure to changes in interest rates. In 2009, the Corporation entered into a forward swap contract to manage interest rate risk related to a portion of its current variable rate senior secured term loan. The Corporation has hedged the future interest payments related to \$64,100 of the total outstanding term loan indebtedness due in 2011 pursuant to this forward swap contract. This swap contract, which had a fair value of (\$167) at July 4, 2009, is designated as a cash flow hedge of the future payment of variable rate interest with three-month LIBOR fixed at 1.34% per annum in 2009, 2010 and 2011, respectively.

In 2006, the Corporation entered into a forward swap contract to manage interest rate risk related to a portion of its then existing variable rate senior secured first lien term loan. This swap contract, which had a fair value of (\$3,203) at July 4, 2009, was not designated as a cash flow hedge of the future variable rate payment of interest. The entire change in the fair value of this interest rate swap is recorded to derivative valuation gain in the consolidated statements of operations. For the six months ended July 4, 2009 and June 28, 2008, the Corporation recorded a gain of \$568 and \$77, respectively.

12. Fair Value of Financial Instruments

In September 2006, the FASB issued statement No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. The Corporation has adopted the provisions of SFAS 157 as of January 1, 2008 for financial instruments. Although the adoption of SFAS 157 did not materially impact its financial condition, results of operations, or cash flow, the Corporation is now required to provide additional disclosures as part of its financial statements.

SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable, and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of July 4, 2009 the Corporation held interest rate derivative instruments that are required to be measured at fair value on a recurring basis. These included the Corporation's interest rate derivative instruments.

The Corporation's derivative instruments consist of contracts that are not traded on a public exchange. The fair values of interest rate derivative instruments are determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Therefore, the Corporation has categorized these swap contracts as Level 2.

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The Corporation's assets measured at fair value on a recurring basis subject to the disclosure requirements of SFAS 157 at July 4, 2009 were as follows:

| | July 4, 2009 | | | | January 3, 2009 | | | |
|---------------------|-------------------------|------------|---------|------------|-------------------------|------------|---------|------------|
| | Fair Value Measurements | | | | Fair Value Measurements | | | |
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Liabilities | | | | | | | | |
| Interest rate swaps | | \$ (3,370) | | \$ (3,370) | \$ - | \$ (3,771) | \$ - | \$ (3,771) |
| | \$ - | \$ (3,370) | \$ - | \$ (3,370) | \$ - | \$ (3,771) | \$ - | \$ (3,771) |

Additionally, financial instruments also consist of cash and cash equivalents, accounts receivable, and long-term debt, including interest-rate swap agreements and foreign exchange forward contracts. The carrying value of these financial instruments approximates fair value.

13. Income Taxes

The provision for income taxes differs from that computed at the Federal statutory rate of 39% in 2009 and 2008 as follows:

| | Quarter Ended | | Six Months Ended | |
|---|-----------------|------------------|------------------|------------------|
| | July 4, 2009 | June 28, 2008 | July 4, 2009 | June 28, 2008 |
| Tax at Federal statutory rate | \$ 4,258 | \$ 3,899 | \$ 7,784 | \$ 5,950 |
| State income taxes | 415 | 415 | 760 | 615 |
| State tax credits | (25) | (35) | (45) | (61) |
| Foreign income taxes | (1,349) | (201) | (1,526) | (306) |
| Qualified production activities deduction | (108) | (154) | (198) | (259) |
| Research and development credits—current year | (58) | 49 | (106) | (53) |
| Valuation allowance | - | 82 | - | 82 |
| Reserve for uncertain tax positions | 68 | 674 | (309) | 674 |
| Other | (12) | 210 | 57 | 190 |
| | \$ 3,189 | \$ 4,939 | \$ 6,417 | \$ 6,832 |

The Corporation's policy with respect to interest and penalties associated with reserves for uncertain tax positions is to classify such interest and penalties in income tax expense in the Statements of Operations. As of July 4, 2009, the total amount of unrecognized income tax benefits computed under FIN 48 was approximately \$6,423, all of which, if recognized, would impact the effective income tax rate of the Corporation. As of July 4, 2009, the Corporation had recorded a total of \$299 of accrued interest and penalties related to uncertain tax positions. The Corporation foresees possible changes in its reserves for uncertain income tax positions as reasonably possible during the next 12 months that could result in an increase or decrease in the reserves of \$149 or \$575, respectively, due to R&D credits. As of July 4, 2009, the Corporation is subject to unexpired statutes of limitation for U.S. federal income taxes for the year 2008. The Corporation is also subject to unexpired statutes of limitation for various states including most significantly Indiana, Michigan, and New Hampshire generally for the years 2001-2008.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| | |
|---|----------|
| Balance at January 3, 2009 | \$ 8,695 |
| Additions based on tax positions—current year | 374 |
| Additions for tax positions—prior years | - |
| Settlements | (2,646) |
| Balance at July 4, 2009 | \$ 6,423 |

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In millions)

Business Overview

We are a leading independent provider of implants and related instruments and cases to orthopedic device manufacturers and other medical markets. We also design, develop and produce these products for companies in other segments of the medical device market, including the arthroscopy, dental, laparoscopy, osteobiologic and endoscopy sectors, and provide limited specialized products to non-healthcare markets, such as the aerospace industry.

We offer our customers Total Solutions® for complete implant systems—implants, instruments and cases. While our revenue to date has been derived primarily from the sale of implants, instruments and cases separately, or instruments and cases together, our ability to provide Total Solutions® for complete implant systems has already proven to be attractive to our customers, and we expect that this capability will continue to provide us with growth opportunities. In addition, we expect that our Total Solutions® capability will increase the relative percentage of value added products that we supply to our customers.

During the second quarter 2009, our revenue decreased \$8.8 million, or 8.0%, compared to the second quarter 2008, which was largely driven by a \$5.9 million unfavorable impact from foreign currency exchange rate fluctuations. Excluding foreign currency exchange rate fluctuations, our revenue declined by 2.6% in the second quarter of 2009 compared to the second quarter 2008. Our revenue from our top five orthopedic customers represented 68.3% of total revenues. We experienced slightly higher revenue in instrument and implant products as our core orthopedic customers continue to launch new products. However, this increase in revenue was more than offset by decreased revenue in cases and aerospace products as our non-orthopedic customers reduced their requirements in response to the current economic environment. Excluding aerospace, our medical revenue increased 0.6% as compared to second quarter 2008, on a constant currency basis.

Over the last four years, we have completed five acquisitions which have afforded us the opportunity to offer a comprehensive line of implants, surgical instruments and cases for orthopedic device manufacturers and other medical markets on a global basis, as well as specialized parts into the aerospace industry.

In January 2008, we acquired DePuy Orthopaedics, Inc.'s ("DePuy") New Bedford, Massachusetts instrument manufacturing facility ("New Bedford"). We purchased substantially all of the assets and real estate of New Bedford for approximately \$45.2 million in cash. New Bedford produces orthopedic instruments, general medical instruments and some small spine related implants. Historically, 100% of the products produced at the facility were for DePuy. Commencing in the third quarter of 2008, we began to utilize this facility to serve our other medical customers, as we have a strategy to diversify and expand both product and customer portfolio at this facility. In connection with the acquisition, we entered into a supply agreement which requires DePuy to make minimum purchases from New Bedford for a four year period. The agreement stipulates that these purchases are incremental to other products we presently or previously produced on DePuy's behalf. The commitment from DePuy totals \$106.0 million over the four year period, with specific amounts in each year. Certain key members of New Bedford's pre-acquisition management team continue to lead this business unit. We believe this acquisition strengthens our position as a leading provider to the orthopedic industry and provides additional manufacturing capacity to better serve our broad customer base, builds on our relationship with DePuy, expands our East Coast presence and allows us to move forward with an existing skilled workforce to service our growing market.

Our focus remains on being a leader in our core orthopedic business, while capitalizing on our leadership to extend our Total Solutions® approach into other medical markets. We continue to see a favorable customer response to our offerings and are experiencing growth as more and more of our customers are impacted by an increased quality and regulatory environment. Many of our customers are reducing their number of suppliers and consolidating purchases with larger strategic providers. By leveraging our global resources yet providing a local presence across the global marketplace, we become closer to our customers, provide quicker response times and increase our value added services.

Second Quarter Results of Operations

Revenue. Revenue for the three month period ended July 4, 2009 decreased \$8.8 million, or 8.0%, to \$101.0 million from \$109.8 million for the comparable 2008 period. Revenue for each of our principal product categories in these periods was as follows:

| Product Category | Three Months Ended | |
|------------------|--------------------|------------------|
| | July 4, 2009 | June 28, 2008 |
| | (unaudited) | |
| Instruments | \$ 46.9 | \$ 45.1 |
| Implants | 29.9 | 31.2 |
| Cases | 18.9 | 23.4 |
| Other | 5.3 | 10.1 |
| Total | \$ 101.0 | \$ 109.8 |

The \$8.8 million decrease in revenue resulted from unfavorable foreign currency exchange rate fluctuations of \$5.9 million and reduced sales on a constant currency basis within our case and aerospace product lines, which was only partially offset by increases in instrument and implant product lines. Instrument revenue increased \$1.8 million. This increase was driven by an increase in organic customer demand of \$2.5 million due to the continuation of several large projects for our top five customers driven primarily by product launches. Foreign currency exchange rate fluctuations partially offset the increases in instrument revenues as they had an unfavorable impact of \$0.7 million. Implant revenue decreased \$1.3 million driven by unfavorable foreign currency exchange rate fluctuations of \$3.0 million, partially offset by organic growth of \$1.7 million resulting from general industry growth. Case revenue decreased \$4.5 million due to a \$3.6 million decrease in customer demand from our non-orthopedic medical customers as they react to the current economic environment and \$0.9 million of unfavorable foreign currency exchange rate fluctuations. Other product revenue decreased \$4.8 million primarily driven by a reduction of customer demand of \$3.5 million due to our largest customer in the aerospace industry reacting to deteriorating market conditions in that sector in addition to unfavorable foreign currency exchange rate fluctuations of \$1.3 million.

Gross Profit. Gross profit for the three month period ended July 4, 2009 decreased \$0.6 million, or 2.3%, to \$26.8 million from \$27.4 million for the comparable 2008 period. Despite experiencing declining revenues and gross profit, management was able to increase the gross margin percentage to 26.5% in the second quarter of 2009 from 25.0% in the comparable 2008 period. This improvement was primarily driven by improved operational performance at our Sheffield, UK operating unit due to the favorable impacts of our headcount reduction initiatives in late 2008, improved manufacturing processes and reduced material costs from the renegotiation of a key supply agreement.

Selling, General and Administrative Expenses. For the three month period ended July 4, 2009, selling, general and administrative expenses (“SG&A”) were \$13.2 million compared with the three month period ended June 28, 2008 of \$14.9 million. The decrease was primarily driven by a reduction in professional fees and expenses incurred in the second quarter 2008 of \$1.4 million from the review of accounting irregularities at our Sheffield, UK operating unit. The improvement also reflects a decrease in employee compensation costs, including headcount reductions, driven by lower revenue levels and our continued cost control efforts, partially offset by an increase in non-cash, stock based compensation expense of \$0.5 million.

Other (Income) Expense. Interest expense for the three month period ended July 4, 2009 decreased \$1.4 million, or 46.4%, to \$1.6 million from \$2.9 million for the comparable period in 2008. This decrease reflects the reduction in the interest rate on our debt due to our improved financial ratios, as well as the general decline in the interest rate market in the second quarter 2009 as compared to 2008. Additionally, aggregate outstanding indebtedness has decreased \$20.6 million, or 14.2% as compared to June 28, 2008. The net derivatives gain in second quarter 2009 consists of a gain on interest rate swap valuation of \$0.2 million related to our interest rate swap that has not been designated as a hedge under SFAS 133 as compared to a gain of \$1.4 million for the comparable period in 2008. The interest rate swaps are used to convert our variable rate long-term debt to fixed rates. During 2008, the Corporation also held foreign currency forwards to mitigate fluctuations in foreign currency on the statement of operations. The gain of the foreign currency valuation for fiscal 2008 offset losses on foreign currency fluctuations that were included within other expense.

Provision for Income Taxes. Our effective tax rate was 26.2% for the three month period ended July 4, 2009 as compared to 44.3% for the three month period ended June 28, 2008. Provision for income taxes decreased by \$1.7 million, or 35.4%, to \$3.2 million for the three month period ended July 4, 2009 from \$4.9 million for the comparable 2008 period and differed from the US Federal statutory rate of 35% primarily due to a reduction in reserves for uncertain tax positions and a reduction in estimated taxes payable in foreign jurisdictions related to 2008 activities.

Six Months Results of Operations

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Revenue. Revenue for the six month period ended July 4, 2009 decreased \$9.2 million, or 4.3%, to \$202.4 million from \$211.6 million for the comparable 2008 period. Revenue for each of our principal product categories in these periods was as follows:

| Product Category | Six Months Ended | |
|------------------|------------------|------------------|
| | July 4, 2009 | June 28, 2008 |
| | (unaudited) | |
| Instruments | \$ 93.4 | \$ 84.4 |
| Implants | 59.0 | 61.4 |
| Cases | 37.4 | 44.9 |
| Other | 12.6 | 20.9 |
| Total | \$ 202.4 | \$ 211.6 |

The \$9.2 million decrease in revenue resulted from unfavorable foreign currency exchange rate fluctuations of \$13.3 million and decreased cash and other revenue partially offset by increased revenue within our instrument and implant product lines on a constant currency basis. Instrument revenue increased \$9.0 million driven by an increase in organic customer demand of \$8.4 million due to the continuation of several large projects related to product launches for our top five customers. In addition, 2009 instrument revenue increased \$2.2 million from our New Bedford acquisition which was completed at the end of January 2008. Foreign currency exchange rate fluctuations partially offset the increases in instrument revenues as they had an unfavorable impact of \$1.6 million. Implant revenue decreased \$2.4 million driven by unfavorable foreign currency exchange rate fluctuations of \$6.6 million, partially offset by organic growth of \$3.7 million resulting from general industry growth and the additional sales from our New Bedford acquisition of \$0.5 million. Case revenue decreased \$7.5 million due to a \$5.8 million decrease in customer demand from our non-orthopedic medical customers as they react to the current economic environment and \$1.7 million of unfavorable foreign currency exchange rate fluctuations. Other product revenue decreased \$8.3 million driven by both unfavorable foreign currency exchange rate fluctuations of \$3.4 million and a reduction in customer demand of \$4.9 million due to our largest customer in the aerospace industry reacting to deteriorating market conditions in that sector.

Gross Profit. Gross profit for the six month period ended July 4, 2009 remained comparable with the 2008 period, decreasing \$0.1 million, to \$51.3 million from \$51.4 million. Despite experiencing declining revenues and gross profit, management was able to increase the gross margin percentage to 25.4% in the second quarter of 2009 from 24.3% in the comparable 2008 period. This improvement was primarily due to improved operational performance at our Sheffield, UK operating unit driven by the favorable impacts of our headcount reduction initiatives in late 2008, improved manufacturing processes and reduced material costs from the renegotiation of a key supply agreement.

Selling, General and Administrative Expenses. For the six month period ended July 4, 2009, selling, general and administrative expenses ("SG&A") were \$26.6 million compared with the six month period ended June 28, 2008 of \$29.3 million. The decrease was primarily driven by a reduction in professional fees and expenses incurred in the first half of 2008 of \$3.6 million from the review of accounting irregularities at our Sheffield, UK operating unit. The improvement also reflects a decrease in employee compensation costs, including headcount reductions, driven by lower revenue levels and our continued cost control efforts, partially offset by an increase in non-cash, stock based compensation expense of \$1.1 and the additional costs from the acquisition of New Bedford, which was acquired at the end of January 2008.

Other (Income) Expense. Interest expense for the six month period ended July 4, 2009 decreased \$2.2 million, or 39.8%, to \$3.4 million from \$5.6 million for the comparable period in 2008. This decrease reflects the reduction in our interest rate margin above LIBOR due to improved financial ratios, as well as the general decline in the interest rate market in the first half of 2009 as compared to 2008. Additionally, aggregate outstanding indebtedness has decreased \$20.6 million, or 14.2% as compared to June 28, 2008. In 2009, the Corporation entered into a forward swap contract to manage interest rate risk related to a portion of its current variable rate senior secured term loan. The Corporation has hedged the future interest payments related to \$64.1 million of the total outstanding term loan indebtedness due in 2011 pursuant to this forward swap contract. This swap contract is designated as a cash flow hedge of the future payment of variable rate interest with three-month LIBOR fixed at 1.34% per annum in 2009, 2010 and 2011, respectively. The net derivatives gain for the six month period ended July 4, 2009 consists of a gain on interest rate swap valuation of \$0.6 million related to our interest rate swap that has not been designated as a hedge under SFAS 133 as compared to a gain of \$0.1 million for the comparable period in 2008. The interest rate swaps are used to convert our variable rate long-term debt to fixed rates. During 2008, the Corporation also held foreign currency forwards to mitigate fluctuations in foreign currency on the statement of operations. The gain of the foreign currency valuation for fiscal 2008 offset losses on foreign currency fluctuations that were included within other expense.

Provision for Income Taxes. Our effective tax rate was 28.9% for the six month period ended July 4, 2009 as compared to 40.2% for the six month period ended June 28, 2008. Provision for income taxes decreased by \$0.4

million, or 6.1%, to \$6.4 million for the six month period ended July 4, 2009 from \$6.8 million for the comparable 2008 period and differed from the US Federal rate of 35% primarily due to the settlement of tax reserve and a reduction in estimated taxes payable in foreign jurisdictions related to 2008 activities.

Liquidity and Capital Resources

Current Market Conditions

Current global economic conditions have resulted in increased volatility in the financial markets. During the first half of Fiscal 2009, we actively monitored the financial health of our supplier base, tightened requirements for customer credit, and increased spending controls across the company. We will continue to monitor and manage these activities depending on current and expected market developments.

Liquidity

Our principal sources of liquidity in the six month period ended July 4, 2009 were cash generated from operations and borrowings under our senior revolving credit facility. Principal uses of cash in the six month period ended July 4, 2009 included increased working capital and capital expenditures as well as debt service. We expect that our principal uses of cash in the future will be to finance working capital, to pay for capital expenditures, to service debt and to fund possible future acquisitions.

We believe our cash resources will permit us to stay committed to our strategic plan of increasing our share in the orthopedic market and expanding into other medical device segments. In order to sustain profitability and cash flow during these current economic conditions we have reduced our work force, decreased the amount of overtime, renegotiated a key supply agreement for reduced material costs, implemented cost control measures and began to consolidate operating facilities.

Operating Activities. Operating activities generated cash of \$23.6 million in the six month period ended July 4, 2009 compared to a use of \$2.9 million for the six month period ended June 28, 2008, an increase of \$26.5 million. The increase in cash from operations for the six month period ended July 4, 2009 is primarily a result of improved net income due to reduced SG&A costs, lower interest and lower taxes, in addition to decreased working capital requirements.

Cash used for working capital fluctuations was \$8.1 million in the six month period ended July 4, 2009 as compared to a use of \$24.0 million in the comparable 2008 period. In the six month period ended July 4, 2009, the primary sources of cash for working capital came from a cash refund for income taxes, offset by increases in inventory and reductions in accounts payable and accrued expenses. In the six month period ended June 28, 2008, the primary uses of cash for working capital came from increases in accounts receivable and inventory as a result of our post-acquisition production activity at New Bedford and a significant increase in organic revenue growth.

Investing Activities. Capital expenditures of \$9.2 million were \$0.2 million higher in the six month period ended July 4, 2009 compared to the six month period ended June 28, 2008. The acquisition of New Bedford used \$45.2 million of cash in the six month period ended June 28, 2008.

Financing Activities. Financing activities used \$6.8 million of cash in the six month period ended July 4, 2009 compared to the six month period ended June 28, 2008 due primarily to payments on long-term debt and capital leases, partially offset by borrowings on our revolving line of credit. During 2008, the incremental \$60.0 million of borrowings under our senior credit loan facility was used to fund the New Bedford acquisition, in addition to payments on long-term debt and capital leases.

Capital Expenditures

Capital expenditures totaled \$9.2 million for the six months ended July 4, 2009, compared to \$9.0 million for the six month period ended June 28, 2008. Expenditures were primarily for expansion and capability enhancement efforts in our Malaysia facility, software and hardware system improvements at our US and Sheffield, UK operating units as well as continued spending on automation and replacement of equipment.

Debt and Credit Facilities

As of July 4, 2009, we had an aggregate of \$124.9 million of outstanding indebtedness, which consisted of \$98.1 million of term loan borrowings outstanding under our Senior Credit Agreement, \$16.0 million of borrowings outstanding under our revolving credit facility, \$5.3 million of borrowings under our UK short-term credit facility, \$1.8 million of borrowings under our Malaysia short-term credit facility, and \$3.8 million of capital lease obligations. We had one outstanding letter of credit as of July 4, 2009 for \$3.5 million.

Our Senior Credit Agreement contains various financial covenants, including covenants requiring a maximum total debt to EBITDA ratio, minimum EBITDA to interest ratio and a minimum EBITDA to fixed charges ratio. We were in compliance with these covenants under the senior credit facility as of July 4, 2009.

We believe that cash flow from operating activities and borrowings under our Senior Credit Agreement will be sufficient to fund currently anticipated working capital, planned capital spending and debt service requirements for the next twelve months. We also review technology, manufacturing and other strategic acquisition opportunities regularly, which may require additional debt or equity financing.

Contractual Obligations and Commercial Commitments

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| | Payments due by period | | | | |
|--------------------------------|------------------------|---------------------|----------------------------|---------------|----------------------|
| | Total | Less than 1 year | 1-3 years (in millions) | 4-5 years | More than 5 years |
| Long-term debt obligations (1) | \$ 114.1 | \$ 8.5 | \$ 105.6 | \$ - | \$ - |
| Capital lease obligations | 6.7 | 0.7 | 2.0 | 2.6 | 1.4 |
| Operating lease obligations | 5.1 | 1.2 | 2.5 | 1.4 | - |
| Purchase obligations (2) | 19.9 | 8.5 | 11.4 | - | - |
| Total | \$ 145.8 | \$ 18.9 | \$ 121.5 | \$ 4.0 | \$ 1.4 |

* Less than 1 year is defined as the remainder of fiscal 2009. Following periods are whole fiscal years.

** Liabilities for unrecognized tax benefits of \$6.4 million are excluded as reasonable estimates could not be made regarding the timing of future cash outflows associated with those liabilities.

(1) Represents principal maturities only and, therefore, excludes the effects of interest and interest rate swaps. Scheduled payments for our Revolving Credit Facility exclude interest payments as rates are variable.

Borrowings under the Revolving Credit Facility bear interest at a variable rate based on the London Interbank Offer Rate (LIBOR) or a base rate determined by the lender's prime rate plus an applicable margin, as defined in the agreement. The applicable margin for borrowings under the Amendment ranges from 0.25% to 1.25% for base rate borrowings and 1.25% to 2.25% for LIBOR borrowings, subject to adjustment based on the average availability under the Revolving Credit Facility.

(2) Primarily represents purchase agreements to buy minimum quantities of titanium and cobalt chrome through December 2011.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements include our operating leases and letters of credit, which are available under the senior credit facility. We had one letter of credit outstanding as of July 4, 2009 in the amount of \$3.5 million.

Environmental

Our facilities and operations are subject to extensive federal, state, local and foreign environmental and occupational health and safety laws and regulations. These laws and regulations govern, among other things, air emissions; wastewater discharges; the generation, storage, handling, use and transportation of hazardous materials; the handling and disposal of hazardous wastes; the cleanup of contamination; and the health and safety of our employees. Under such laws and regulations, we are required to obtain permits from governmental authorities for some of our operations. If we violate or fail to comply with these laws, regulations or permits, we could be fined or otherwise sanctioned by regulators. We could also be held responsible for costs and damages arising from any contamination at our past or present facilities or at third-party waste disposal sites. We cannot completely eliminate the risk of contamination or injury resulting from hazardous materials, and we may incur material liability as a result of any contamination or injury.

We incurred approximately \$0.3 million in capital expenditures for environmental, health and safety in the six month period ended July 4, 2009 compared to \$0.2 million for the comparable 2008 period.

In connection with our recent acquisitions, we completed Phase I assessments and did not identify any significant issues that need to be remediated. We cannot be certain that environmental issues will not be discovered or arise in the future related to these acquisitions.

In conjunction with the New Bedford acquisition in January 2008, we purchased \$5.0 million of environmental insurance coverage for this facility. This policy expires January 25, 2013. In 2000, we purchased pollution legal liability insurance that covers certain environmental liabilities that may arise at our Warsaw, Indiana facility, at a former facility located in Peru, Indiana, and at certain non-owned locations that we use for the disposal of waste. The insurance has a \$5.0 million aggregate limit and is subject to a deductible and certain exclusions. The policy period expires in 2010. While the insurance may mitigate the risk of certain environmental liabilities, we cannot guarantee that a particular liability will be covered by this insurance.

Based on information currently available, we do not believe that we have any material environmental liabilities.

Critical Accounting Policies and Estimates

The preparation of our financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the periods presented. Our Annual Report on Form 10-K for fiscal year ended January 3, 2009 includes a summary of the critical accounting policies we believe are the most important to aid in understanding our financial results. There have been no material changes to these critical accounting policies that impacted our reported amounts of assets, liabilities, revenues or expenses during the three months ended July 4, 2009.

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 our 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 our 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.

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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For financial market risks related to changes in interest rates, foreign currency exchange rates, commodity prices and the effects of inflation, reference is made to Item 7a “Quantitative and Qualitative Disclosures About Market Risk” contained in Part II of our Annual Report on Form 10-K for the fiscal year ended January 3, 2009. Our exposure to these risks, at the end of the second quarter covered by this report, has not changed materially since January 3, 2009.

ITEM 4. CONTROLS AND PROCEDURES

This Report includes the certifications of our Chief Executive Officer and Chief Financial Officer required by Rule 13a-14 of the Securities Exchange Act of 1934 (the “Exchange Act”). See Exhibits 31.1 and 31.2. This Item 4 includes information concerning the controls and control evaluations referred to in those certifications.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to management, including the chief executive officer and the chief financial officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of this Report, our management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the fiscal quarter covered by this report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of July 4, 2009.

Changes in Internal Control over Financial Reporting

There have been no changes in our “internal control over financial reporting” (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the fiscal quarter covered by this report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting except that we implemented a new ERP system at our Sheffield, UK operating unit which has improved our internal controls over financial reporting at that location.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

SEC Inquiry

Following the discovery of the accounting irregularities at our Sheffield, UK operating unit, the Audit Committee self-reported the matter to the staff of the SEC in October 2007. Thereafter, the SEC commenced an informal inquiry regarding this matter.

We have fully cooperated with the SEC in its investigation. At this time we are unable to predict the time period necessary to resolve the investigation or the ultimate resolution thereof. To date, considerable legal, tax and accounting expenses have been incurred in connection with our Audit Committee's investigation into this matter and expenditures may continue to be incurred in the future with regard to the SEC's investigation. It is also possible that the investigation may continue to require management's time and attention and accounting and legal resources, which could otherwise be devoted to the operation of our business. Moreover, any action by the SEC against us, or members of our management, may cause us to be subject to injunctions, fines or other penalties or sanctions or result in private civil actions, loss of key personnel or other adverse consequences and may require us to devote additional time and resources to these matters. The investigation may adversely affect our ability to obtain, and /or increase the cost of obtaining directors' and officers' liability insurance and/or other types of insurance, which could have a material adverse affect on our business, results of operations and financial condition. In addition, the SEC investigation and the remedies applied may affect certain of our business relationships and consequently may have an adverse effect on our business in the future.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A "Risk Factors" contained in our Annual Report on Form 10-K for the fiscal year ended January 3, 2009, which could materially affect our business, financial condition or future results.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Our Annual Meeting of Shareholders was held June 22, 2009. Proxies were solicited for the Annual Meeting in accordance with the requirements of The Securities Exchange Act 1934. At the Annual Meeting, the following occurred:

- With respect to Proposal 1 in our Proxy Statement (Election of Directors), John S. Krelle, Thomas E. Chorman and Robert G. Deuster were elected to serve as the Class I Directors. The newly-elected Class I Directors will serve a three-year term, expiring at the annual shareholder meeting in 2012. The Class II Directors, James S. Burns and Craig B. Reynolds are continuing Directors serving three-year terms that expire at the annual shareholder meeting in 2010. The Class III Directors, Brian S. Moore and Francis T. Nusspickel are continuing Directors serving three-year terms that expire at the annual shareholder meeting in 2011. The voting result for the Class I Directors was as follows:

| Class II Director | Shares Voted | |
|-------------------|----------------------|---------------------|
| | For | Withheld |
| John S. Krelle | 25,283,103 74.86% | 8,490,616 25.14% |
| Thomas E. Chorman | 33,354,177 98.76% | 419,542 1.24% |
| Robert G. Deuster | 33,343,201 98.73% | 430,518 1.27% |

- With respect to Proposal 2 in our Proxy Statement (Ratification of the Appointment of Ernst & Young LLP as Auditors for the Year 2009), Ernst & Young LLP was approved as our independent auditors for the year ending January 2, 2010:

| | |
|----------------------|------------|
| Shares Voted For | 32,899,305 |
| | 97.41% |
| Shares Voted Against | 843,110 |
| | 2.50% |
| Abstentions | 31,304 |
| | 0.09% |
| Broker Non-Votes | 0 |
| | 0.00% |

- With respect to Proposal 3 in our Proxy Statement (Approval of Amendment No. 1 to the Symmetry Medical Inc. Amended and Restated 2004 Equity Incentive Plan), the Amendment was approved:

| | | |
|----------------------|------------|--------|
| Shares Voted For | 29,683,182 | 90.73% |
| Shares Voted Against | 3,008,933 | 9.21% |
| Abstentions | 19,869 | 0.06% |
| Broker Non-Votes | 0 | 0.00% |

ITEM 6. EXHIBITS

- 10.42 Form of Restricted Stock Agreement – Key Employees
- 31.1 Certification of Chief Executive Officer required by Item 307 of Regulation S-K as promulgated by the Securities and Exchange Commission and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.**
- 31.2 Certification of Chief Financial Officer required by Item 307 of Regulation S-K as promulgated by the Securities and Exchange Commission and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.**
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

** Filed concurrently herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SYMMETRY MEDICAL INC.

By */s/ Brian S. Moore*
 Brian S. Moore,
 President and Chief Executive Officer
 (Principal Executive Officer)

By */s/ Fred L. Hite*
 Fred L. Hite,
 Senior Vice President and Chief Financial Officer
 (Principal Financial Officer)

August 7, 2009

