

Symmetry Medical Inc.  
Form 10-Q  
August 06, 2010

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 July 3, 2010

Commission File Number: 001-32374

SYMMETRY MEDICAL INC.  
(Exact name of registrant as specified in its charter)

Delaware 35-1996126  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

3724 North State Road 15, Warsaw, Indiana 46582  
(Address of principal executive offices) (Zip Code)

(574) 268-2252  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (S232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

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The number of shares outstanding of the registrant's common stock as of August 3, 2010 was 35,943,638 shares.

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### Cautionary Note Regarding Forward-Looking Statements

Throughout this Quarterly Report on Form 10-Q or in other reports or registration statements filed from time to time with the Securities and Exchange Commission 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 2009 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)

|  | July 3,<br>2010<br>(unaudited) | January 2,<br>2010 |
|--|--------------------------------|--------------------|
| <b>ASSETS:</b>                                     |                                |                    |
| Current Assets:                                    |                                |                    |
| Cash and cash equivalents                          | \$ 9,771                       | \$ 14,219          |
| Accounts receivable, net                           | 45,519                         | 38,221             |
| Inventories  | 66,766                         | 62,301             |
| Refundable income taxes                            | 3,799                          | 3,048              |
| Deferred income taxes                              | 5,350                          | 5,816              |
| Other current assets                               | 4,360                          | 3,648              |
| Total current assets                               | 135,565                        | 127,253            |
| Property and equipment, net                        | 107,760                        | 113,369            |
| Goodwill   | 152,809                        | 153,813            |
| Intangible assets, net of accumulated amortization | 40,973                         | 42,729             |
| Other assets                                       | 1,165                          | 1,181              |
| Total Assets                                       | \$ 438,272                     | \$ 438,345         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>       |                                |                    |
| Current Liabilities:                               |                                |                    |
| Accounts payable                                   | \$ 24,924                      | \$ 19,494          |
| Accrued wages and benefits                         | 9,797                          | 7,607              |
| Other accrued expenses                             | 3,827                          | 5,113              |
| Accrued income taxes                               | 192                            | 257                |
| Deferred income taxes                              | -                              | 78                 |
| Revolving line of credit                           | 1,925                          | 3,320              |
| Current portion of capital lease obligations       | 457                            | 529                |
| Current portion of long-term debt                  | 84,705                         | 20,400             |
| Total current liabilities                          | 125,827                        | 56,798             |
| Accrued income taxes                               | 6,476                          | 6,362              |
| Deferred income taxes                              | 17,141                         | 17,646             |
| Derivative valuation liability                     | 2,305                          | 2,982              |
| Capital lease obligations, less current portion    | 2,644                          | 2,887              |
| Long-term debt, less current portion               | 1,026                          | 69,200             |
| Total Liabilities                                  | 155,419                        | 155,875            |
| Shareholders' Equity:                              |                                |                    |

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|  |            |            |
|--|------------|------------|
| Common Stock, \$.0001 par value; 75,000 shares authorized; shares issued July 3, 2010—35,944; January 2, 2010—35,840 | 4          | 4          |
| Additional paid-in capital   | 278,526    | 278,176    |
| Retained earnings  | 6,387      | 277        |
| Accumulated other comprehensive income (loss)  | (2,064)    | 4,013      |
| Total Shareholders' Equity   | 282,853    | 282,470    |
| Total Liabilities and Shareholders' Equity   | \$ 438,272 | \$ 438,345 |

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 |                 | Six Months Ended |                 |
|--|--------------------|-----------------|------------------|-----------------|
|  | July 3,<br>2010    | July 4,<br>2009 | July 3,<br>2010  | July 4,<br>2009 |
| Revenue  | \$ 88,824          | \$ 100,954      | \$ 173,318       | \$ 202,376      |
| Cost of Revenue  | 68,461             | 74,183          | 135,919          | 151,047         |
| Gross Profit   | 20,363             | 26,771          | 37,399           | 51,329          |
| Selling, general and administrative expenses                         | 12,272             | 13,176          | 24,876           | 26,420          |
| Facility closure and severance costs                                 | 340                | 54              | 860              | 162             |
| Operating Income   | 7,751              | 13,541          | 11,663           | 24,747          |
| Other (income)/expense:  |                    |                 |                  |                 |
| Interest expense   | 1,498              | 1,564           | 3,061            | 3,384           |
| Derivatives valuation gain   | (480)              | (175)           | (788)            | (568)           |
| Other  | (100)              | (12)            | 81               | (308)           |
| Income before income taxes   | 6,833              | 12,164          | 9,309            | 22,239          |
| Income tax expense   | 2,354              | 3,189           | 3,199            | 6,417           |
| Net income   | \$ 4,479           | \$ 8,975        | \$ 6,110         | \$ 15,822       |
| Net income per share:  |                    |                 |                  |                 |
| Basic  | \$ 0.13            | \$ 0.25         | \$ 0.17          | \$ 0.45         |
| Diluted  | \$ 0.13            | \$ 0.25         | \$ 0.17          | \$ 0.44         |
| Weighted average common shares and equivalent shares<br>outstanding: |                    |                 |                  |                 |
| Basic  | 35,448             | 35,326          | 35,445           | 35,289          |
| Diluted  | 35,807             | 35,529          | 35,768           | 35,437          |

See accompanying notes to condensed consolidated financial statements.

## SYMMETRY MEDICAL INC.

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

|   | Six Months Ended |                 |
|---|------------------|-----------------|
|   | July 3,<br>2010  | July 4,<br>2009 |
| <b>Operating activities</b>   |                  |                 |
| Net income  | \$ 6,110         | \$ 15,822       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                  |                 |
| Depreciation  | 9,028            | 9,443           |
| Amortization  | 1,464            | 1,461           |
| Net loss on sale of assets  | 95               | 106             |
| Deferred income tax provision   | 15               | 4,041           |
| Stock-based compensation  | 233              | 1,720           |
| Derivative valuation gain   | (788)            | (568)           |
| Foreign currency transaction (gain) loss  | 65               | (353)           |
| Change in operating assets and liabilities:                                       |                  |                 |
| Accounts receivable   | (8,411)          | 1,956           |
| Other assets  | (904)            | (1,404)         |
| Inventories   | (5,443)          | (5,896)         |
| Current income taxes  | (786)            | 5,788           |
| Accounts payable  | 6,884            | (4,267)         |
| Accrued expenses and other  | 519              | (4,295)         |
| <b>Net cash provided by operating activities</b>                                  | <b>8,081</b>     | <b>23,554</b>   |
| <b>Investing activities</b>   |                  |                 |
| Purchases of property and equipment   | (6,258)          | (9,171)         |
| Proceeds from the sale of property and equipment                                  | 595              | 11              |
| <b>Net cash used in investing activities</b>                                      | <b>(5,663)</b>   | <b>(9,160)</b>  |
| <b>Financing activities</b>   |                  |                 |
| Proceeds from bank revolver   | 16,726           | 28,659          |
| Payments on bank revolver   | (14,259)         | (26,462)        |
| Issuance of long-term debt  | 2,711            | -               |
| Payments on long-term debt and capital lease obligations                          | (10,808)         | (9,120)         |
| Proceeds from the issuance of common stock  | 99               | 106             |
| <b>Net cash used in financing activities</b>                                      | <b>(5,531)</b>   | <b>(6,817)</b>  |
| Effect of exchange rate changes on cash   | (1,335)          | 748             |
| <b>Net increase (decrease) in cash and cash equivalents</b>                       | <b>(4,448)</b>   | <b>8,325</b>    |
| Cash and cash equivalents at beginning of period                                  | 14,219           | 10,191          |
| Cash and cash equivalents at end of period  | \$ 9,771         | \$ 18,516       |

Supplemental disclosures:

|                        |    |       |    |       |
|------------------------|----|-------|----|-------|
| Cash paid for interest | \$ | 2,703 | \$ | 3,954 |
|------------------------|----|-------|----|-------|

|                                       |    |       |    |         |
|---------------------------------------|----|-------|----|---------|
| Cash paid (received) for income taxes | \$ | 3,165 | \$ | (3,474) |
|---------------------------------------|----|-------|----|---------|

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): Symmetry Medical USA Inc., Jet Engineering, Inc., Ultrexx, Inc., Symmetry Medical Switzerland SA (formerly known as Riley Medical Europe, SA), Symmetry Medical Everest LLC, Symmetry Medical Ireland Limited (formerly known as Everest Metal International Limited), Symmetry Medical Cheltenham Limited, Symmetry Medical PolyVac, SAS, Symmetry Medical Sheffield Limited (formerly known as Thornton Precision Components Limited), Symmetry Medical Malaysia SDN, Clamonta Limited, Specialty Surgical Instrumentation Inc. and Symmetry Medical New Bedford Inc. 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 2009 consolidated financial statements and the notes thereto included in the Corporation's Annual Report on Form 10-K for fiscal year 2009.

The Corporation's fiscal year is the 52 or 53 week period ending on the Saturday closest to December 31. Fiscal year 2010 is a 52 week year ending January 1, 2011. The Corporation's interim quarters for 2010 are 13 weeks long and quarter-end dates have been set as April 3, 2010, July 3, 2010 and October 2, 2010. Fiscal year 2009 was a 52 week year (ending January 2, 2010). The Corporation's interim quarters for 2009 were 13 weeks long, ending April 4, 2009, July 4, 2009 and October 3, 2009. References in these condensed consolidated financial statements to the three months ended refer to these financial periods, respectively. The Corporation has evaluated subsequent events up through the time of filing with the SEC for the quarter ended July 3, 2010.

### 2. Inventories

Inventories consist of the following:

|                           | July 3,<br>2010<br>(unaudited) | January 2,<br>2010 |
|---------------------------|--------------------------------|--------------------|
| Raw material and supplies | \$ 15,511                      | \$ 15,099          |
| Work-in-process           | 29,940                         | 27,120             |
| Finished goods            | 21,315                         | 20,082             |
|                           | \$ 66,766                      | \$ 62,301          |

### 3. Property and Equipment

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

|   | July 3,<br>2010<br>(unaudited) | January 2,<br>2010 |
|---|--------------------------------|--------------------|
| Land  | \$ 6,646                       | \$ 6,965           |
| Buildings and improvements (20 to 40 years) | 40,917                         | 42,252             |
| Machinery and equipment (5 to 15 years)     | 139,030                        | 138,182            |
| Office equipment (3 to 5 years)             | 13,594                         | 13,194             |
| Construction-in-progress                    | 5,100                          | 3,750              |
|   | 205,287                        | 204,343            |
| Less accumulated depreciation               | (97,527)                       | (90,974)           |
|   | \$ 107,760                     | \$ 113,369         |

## 4. Intangible Assets

Intangible assets were acquired in connection with our business acquisitions. As of July 3, 2010, the balances of intangible assets, other than goodwill, were as follows:

|   | Weighted-Average<br>Amortization<br>Period<br>(unaudited) | Gross<br>Intangible<br>Assets<br>(unaudited) | Accumulated<br>Amortization<br>(unaudited) | Net<br>Intangible<br>Assets<br>(unaudited) |
|---|---|--|--|--|
| Acquired technology and patents                         | 10 years  | \$ 2,316                                     | \$ (1,139)                                 | \$ 1,177                                   |
| Acquired customers                                      | 18 years  | 42,452                                       | (10,394)                                   | 32,058                                     |
| Non-compete agreements                                  | 5 years   | 582  | (373)                                      | 209  |
| Intangible assets subject to amortization               | 17 years  | 45,350                                       | (11,906)                                   | 33,444                                     |
| Proprietary processes                                   | Indefinite  |  |  | 3,497                                      |
| Trademarks  | Indefinite  |  |  | 4,032                                      |
| Indefinite-lived intangible assets, other than goodwill |   |  |  | 7,529                                      |
| Total   |   |  |  | \$ 40,973                                  |

As of January 2, 2010, the balances of intangible assets, other than goodwill, were as follows:

|   | Weighted-Average<br>Amortization<br>Period | Gross<br>Intangible<br>Assets | Accumulated<br>Amortization | Net<br>Intangible<br>Assets |
|---|--|-------------------------------|-----------------------------|-----------------------------|
| Acquired technology and patents                         | 10 years                                   | \$ 2,343                      | \$ (1,020)                  | \$ 1,323                    |
| Acquired customers                                      | 18 years                                   | 42,613                        | (9,166)                     | 33,447                      |
| Non-compete agreements                                  | 5 years                                    | 691                           | (420)                       | 271                         |
| Intangible assets subject to amortization               | 17 years                                   | 45,647                        | (10,606)                    | 35,041                      |
| Proprietary processes                                   | Indefinite                                 |                               |                             | 3,586                       |
| Trademarks  | Indefinite                                 |                               |                             | 4,102                       |
| Indefinite-lived intangible assets, other than goodwill |  |                               |                             | 7,688                       |
| Total   |  |                               |                             | \$ 42,729                   |

## 5. Debt Arrangements

The Corporation's Senior Credit Agreement, including the revolving credit facility, which has a balance of \$83,337 at July 3, 2010, matures in June 2011. As such, all debt under this agreement has been classified as current on the condensed consolidated balance sheets.

The 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. The Senior Credit Agreement also contains covenants restricting certain corporate actions, including asset dispositions, acquisitions, paying dividends and certain other restricted payments, changes of control, incurring indebtedness, incurring liens, making loans and investments and transactions with affiliates. The senior credit facility is secured by

substantially all of the Corporation's assets. The Corporation's Senior Credit Agreement also contains customary events of default.

On August 4, 2010, the Corporation entered into a limited waiver (the "Limited Waiver") to its Senior Credit Agreement, dated as of June 13, 2006, by and among the Corporation, Wells Fargo Bank, National Association (as successor by merger to Wachovia Bank, National Association), as administrative agent (the "Agent"), and various other lenders that are party thereto. Subject to certain conditions, the Limited Waiver provides a waiver of compliance with certain covenants, and related events of default, set forth in the Credit Facility for the second and third fiscal quarters of 2010. Specifically, the Limited Waiver waives those certain events of default that have occurred or are anticipated to occur under the Credit Facility as a result of or relating to:

- (1) Failure of the Corporation to meet the minimum EBITDA to fixed charges ratio for the second and third fiscal quarter of 2010, but only to the extent that the Corporation maintains a ratio of at least 0.90 to 1.0 for the second fiscal quarter of 2010 and a ratio of at least 1.0 to 1.0 for the third fiscal quarter of 2010; and
- (2) The Corporation exceeding the maximum amount of investments permitted to be made in foreign subsidiaries for each of the second and third fiscal quarters of 2010, but only to the extent that the aggregate amount of investments in the Corporation's foreign subsidiaries, as of the end of each of the second and third fiscal quarters of 2010, does not exceed \$15 million.

The Corporation was in compliance with all covenants under the Senior Credit Agreement as of July 3, 2010.

In March, 2010, our Sheffield, UK unit obtained a new £3,000 facility, comprised of a 24-month asset-based term note and short-term revolver facility. The term note matures in March 2012 with monthly payments plus interest at 2.75% per year. The short-term revolver is due on demand and accrues interest at 3.50% per year. As of July 3, 2010, \$2,395 was outstanding on the term loan and there were no borrowings on the short-term revolver. The term note and revolver are secured by certain assets of our Sheffield, UK unit, which had a net book value of approximately \$6,284 as of July 3, 2010.

## 6. New Accounting Pronouncements

Disclosures about Fair Value Measurements. In January 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2010-06, “Improving Disclosures about Fair Value Measurements.” ASU 2010-06 requires additional disclosures about fair value measurements including transfers in and out of Levels 1 and 2 and a higher level of disaggregation for the different types of financial instruments. For the reconciliation of Level 3 fair value measurements, information about purchases, sales, issuances and settlements are presented separately. This standard is effective for interim and annual reporting periods beginning after December 15, 2009 with the exception of revised Level 3 disclosure requirements which are effective for interim and annual reporting periods beginning after December 15, 2010. Comparative disclosures are not required in the year of adoption. The Corporation adopted the provisions of the standard on January 3, 2010, which did not have an impact on the Corporation’s financial position, results of operations or cash flows.

## 7. 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, and same or similar customers, those operations have been aggregated for segment reporting purposes. The results of one segment which sells exclusively to aerospace customers has not been disclosed separately as it does not meet the quantitative disclosure requirements.

The Corporation is a multi-national Corporation with operations in the United States, United Kingdom, France, Ireland and Malaysia. As a result, the Corporation's financial results can be impacted by currency exchange rates in the foreign markets in which the Corporation sells its products. Revenues are attributed to geographic locations based on the location to which we ship our products.

### Revenue to External Customers:

|                         | Three Months Ended |                 | Six Months Ended |                 |
|-------------------------|--------------------|-----------------|------------------|-----------------|
|                         | July 3,<br>2010    | July 4,<br>2009 | July 3,<br>2010  | July 4,<br>2009 |
|                         | (unaudited)        |                 | (unaudited)      |                 |
| United States           | \$ 66,218          | \$ 74,427       | \$ 126,928       | \$ 151,320      |
| Ireland                 | 8,418              | 9,796           | 16,513           | 19,298          |
| United Kingdom          | 6,563              | 7,386           | 13,743           | 15,360          |
| Other foreign countries | 7,625              | 9,345           | 16,134           | 16,398          |
| Total net revenues      | \$ 88,824          | \$ 100,954      | \$ 173,318       | \$ 202,376      |

Concentration of Credit Risk:

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

Three months ended July 3, 2010 – Two customers represented approximately 31.0% and 11.9% of revenue, respectively.

Six months ended July 3, 2010 – Two customers represented approximately 32.6% and 11.3% of revenue, respectively.

Three months ended July 4, 2009 – One customer represented approximately 41.4% of revenue.

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Six months ended July 4, 2009 – One customer represented approximately 41.7% of revenue.

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 3,<br>2010<br>(unaudited) | July 4,<br>2009<br>(unaudited) | July 3,<br>2010<br>(unaudited) | July 4,<br>2009<br>(unaudited) |
| Instruments        | \$ 35,444                      | \$ 46,847                      | \$ 67,069                      | \$ 93,352                      |
| Implants           | 28,514                         | 29,935                         | 56,726                         | 59,018                         |
| Cases              | 19,814                         | 18,873                         | 38,632                         | 37,372                         |
| Other              | 5,052                          | 5,299                          | 10,891                         | 12,634                         |
| Total net revenues | \$ 88,824                      | \$ 100,954                     | \$ 173,318                     | \$ 202,376                     |

8. Net Income Per Share

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

|   | Three Months Ended             |                                | Six Months Ended               |                                |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
|   | July 3,<br>2010<br>(unaudited) | July 4,<br>2009<br>(unaudited) | July 3,<br>2010<br>(unaudited) | July 4,<br>2009<br>(unaudited) |
| <b>Earnings per share - Basic:</b>                        |                                |                                |                                |                                |
| Net income  | \$ 4,479                       | \$ 8,975                       | \$ 6,110                       | \$ 15,822                      |
| Less: Undistributed earnings allocated to nonvested stock | (41)                           | (117)                          | (57)                           | (208)                          |
| Income available to common shares - Basic                 | 4,438                          | 8,858                          | 6,053                          | 15,614                         |
| Weighted-average common shares outstanding - Basic        | 35,448                         | 35,326                         | 35,445                         | 35,289                         |
| Earnings per share - Basic                                | \$ 0.13                        | \$ 0.25                        | \$ 0.17                        | \$ 0.44                        |
| <b>Earnings per share - Diluted:</b>                      |                                |                                |                                |                                |
| Net income  | \$ 4,479                       | \$ 8,975                       | \$ 6,110                       | \$ 15,822                      |
| Less: Undistributed earnings allocated to nonvested stock | -                              | (66)                           | (2)                            | (142)                          |
| Income available to common shares - Diluted               | 4,479                          | 8,909                          | 6,108                          | 15,680                         |
| Weighted-average common shares outstanding - Basic        | 35,448                         | 35,326                         | 35,445                         | 35,289                         |
| Effect of dilution  | 359                            | 203                            | 323                            | 148                            |
| Weighted-average common shares outstanding - Diluted      | 35,807                         | 35,529                         | 35,768                         | 35,437                         |
| Earnings per share - Diluted                              | \$ 0.13                        | \$ 0.25                        | \$ 0.17                        | \$ 0.44                        |

The diluted weighted average share calculations for the three and six month periods ended July 3, 2010 do not include performance based restricted stock awarded March 24, 2010, totaling 324,550 shares because the measurement period is not complete. Restricted stock awarded July 1, 2009, totaling 119,925 shares was not included in the diluted

weighted average share calculations for the three and six month periods ended July 4, 2009 because the measurement period was not complete.

#### 9. Commitments and Contingencies

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

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

**Unconditional Purchase Obligations.** The Corporation has contracts to purchase minimum quantities of plastic, cobalt chrome and titanium through December 2012. Based on contractual pricing at July 3, 2010, remaining minimum purchase obligations total \$21,119. Purchases under plastic, cobalt chrome and titanium contracts total approximately \$11,041 for the six month period ended July 3, 2010. These purchases are not in excess of our forecasted requirements.

## 10. Comprehensive Income

Comprehensive income is comprised of net income, gains (losses) resulting from currency translations of foreign entities and unrealized gain and losses on our derivative designated as a hedge under ASC 815, Hedging (formerly SFAS 133). Comprehensive income consists of the following:

|  | Three Months Ended             |                                | Six Months Ended               |                                |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
|  | July 3,<br>2010<br>(unaudited) | July 4,<br>2009<br>(unaudited) | July 3,<br>2010<br>(unaudited) | July 4,<br>2009<br>(unaudited) |
| Net Income                               | \$ 4,479                       | \$ 8,975                       | \$ 6,110                       | \$ 15,822                      |
| Foreign currency translation adjustments | (1,765)                        | 5,408                          | (6,013)                        | 5,018                          |
| Derivative, net of tax benefit (1)       | 28                             | (58)                           | (64)                           | (100)                          |
| <b>Comprehensive income</b>              | <b>\$ 2,742</b>                | <b>\$ 14,325</b>               | <b>\$ 33</b>                   | <b>\$ 20,740</b>               |

(1) Derivative gains (losses) are reported net of income tax (expense)/benefit of \$(18) and \$38 for the three month periods ended July 3, 2010 and July 4, 2009, respectively, and \$44 and \$67 for the six month periods ended July 3, 2010 and July 4, 2009, respectively.

## 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. 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 assist in the determination of the fair value of these derivatives. The Corporation considers its derivative instrument valuations to be Level 2 fair value measurements under the provision of the FASB Statement on fair value measurements (See Note 12).

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 income / (loss), a component of shareholders' equity in the condensed consolidated balance sheets, until the underlying transaction hedged is recognized in the unaudited condensed 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 is reclassified to interest expense in the unaudited condensed 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 (\$495) at July 3, 2010, 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.

## 11. Derivatives (Continued)

In 2006, the Corporation entered into a forward swap contract to manage interest rate risk related to \$40,000 of its then existing variable rate senior secured first lien term loan to a fixed payment obligation of 5.45% per annum for the period commencing July 3, 2006 and ending on June 10, 2011. This swap contract, which had a fair value of (\$1,810) at July 3, 2010, 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) / loss in the unaudited condensed consolidated statements of operations. For the three months ended July 3, 2010 and July 4, 2009, the Corporation recorded gains of \$480 and \$175, respectively, and gains of \$788 and \$568 for the six months then ended.

## 12. Fair Value of Financial Instruments

As of July 3, 2010 and January 2, 2010, the Corporation held certain assets 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 in accordance with the FASB Statement on fair value measurement.

The following table summarizes certain fair value information at July 3, 2010 and January 2, 2010 for assets and liabilities measured at fair value on a recurring basis.

|                     | July 3, 2010 |            |         |            | January 2, 2010 |            |         |            |
|---------------------|--------------|------------|---------|------------|-----------------|------------|---------|------------|
|                     | Level 1      | Level 2    | Level 3 | Total      | Level 1         | Level 2    | Level 3 | Total      |
| <b>Liabilities</b>  |              |            |         |            |                 |            |         |            |
| Interest rate swaps |              | \$ (2,305) |         | \$ (2,305) | \$ -            | \$ (2,982) | \$ -    | \$ (2,982) |
|                     | \$ -         | \$ (2,305) | \$ -    | \$ (2,305) | \$ -            | \$ (2,982) | \$ -    | \$ (2,982) |

Additionally, financial instruments also consist of cash and cash equivalents, accounts receivable, and long-term debt. The carrying value of these financial instruments approximates fair value.

## 13. Facility Closure and Severance Costs

Results of Operations include pre-tax charges of \$340 and \$54 for the three months ended July 3, 2010 and July 4, 2009, respectively, and \$860 and \$162 for the six months then ended, associated with employee cost reduction and efficiency actions and the consolidation of our Auburn, ME facility into other facilities that produce similar products. For the three month period ended July 3, 2010, these costs are comprised of \$258 of severance costs and an additional \$82 of moving expenses compared to \$54 of severance costs for the period ended July 4, 2009. For the six month period ended July 3, 2010, these costs are comprised of \$591 of severance costs and an additional \$269 of moving expenses compared to \$162 of severance costs for the period ended July 4, 2009.

As of July 3, 2010 and January 2, 2010, severance accruals related to these cost reduction and efficiency actions totaled \$91 and \$836, respectively, and are included in accrued and other liabilities in the condensed consolidated balance sheets. The reduction in the accrual from January 2, 2010 represents payments made during the first half of 2010 of \$1,336, offset by additional severance costs incurred of \$591.



## 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 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 this capability will 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 2010, our revenue decreased \$12.2 million, or 12.1%, compared to the second quarter 2009. This reduction was primarily driven by reduced customer demand in the instrument product line compounded by unfavorable foreign currency exchange rate impacts of \$1.1 million. The overall economic environment continues to impact demand from our major customers, which resulted in reduced revenue of 19.2% during the second quarter from our combined five largest OEM customers as they continue to manage inventory levels and the timing of their various product launches. However, we did experience a 5.1% increase in revenue in the second quarter 2010 as compared to the first quarter 2010 and we believe we will continue to see sequential increases in revenue during the third quarter 2010.

We continue to be optimistic about the future as the larger OEMs are increasingly focused on improving their supply chains. This focus should result in consolidation of suppliers who in turn will be expected to provide a wider range of services, higher quality and reduced overall costs. We believe that we are well positioned to benefit from increased OEM outsourcing and consolidation of suppliers.

Recently we have been engaged in more active and positive discussions with our customers to provide enhanced services. While these changes tend to have longer leadtime, we continue to believe that we are in a favorable position to emerge as a supplier of choice for our major customers. We believe our global capacity and competitive strengths will benefit us as the order volume and large project launches occur.

Over the past four years, we have completed several acquisitions which expanded our customer base and enabled us to assemble and 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.

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 as more and more of our customers are impacted by increased quality and regulatory requirements. We are increasingly able to use the leverage of our global resources while providing a local presence across the global marketplace. This allows us to be close to our customers, provide quicker response times, and increase our value added services.

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During the first quarter of 2010, the U.S. Congress passed and the President signed into law the Patient Protection and Affordable Care Act, as well as the Health Care and Education Reconciliation Act of 2010, which represent a significant change to the current U.S. healthcare system. A detailed discussion of these risks and other factors is provided in Item 1A of our Annual Report on Form 10-K for the year ended January 2, 2010, and Part II, Item 1A in this report.

## Second Quarter Results of Operations

Revenue. Revenue for the three month period ended July 3, 2010 decreased \$12.2 million, or 12.1%, to \$88.8 million from \$101.0 million for the comparable 2009 period. Revenue for each of our principal product categories in these periods was as follows:

| Product Category | Three Months Ended |                 |
|------------------|--------------------|-----------------|
|                  | July 3,<br>2010    | July 4,<br>2009 |
|                  | (unaudited)        |                 |
| Instruments      | \$ 35.4            | \$ 46.9         |
| Implants         | 28.5               | 29.9            |
| Cases            | 19.8               | 18.9            |
| Other            | 5.1                | 5.3             |
| Total            | \$ 88.8            | \$ 101.0        |

The \$12.2 million decrease in revenue was primarily driven by lower instrument revenue as our five largest OEM customers reduced spending on their launch quantities compared to strong demand in the second quarter of 2009. We also experienced reduced revenue as a result of the global economic environment, which has resulted in reduced overall revenue of 19.2% from our five largest OEM customers as they manage inventory levels and adjust the timing of their various product launches. The reduction in revenue was further impacted by unfavorable foreign currency exchange rate fluctuations of \$1.1 million.

Instrument revenue decreased \$11.5 million. This decrease was driven primarily by lower revenue from our five largest OEM customers due to the timing of their various product launch activity and their management of inventory levels, which resulted in a decrease in revenue of \$14.4 million. Foreign currency exchange rate fluctuations further impacted instrument revenues with an unfavorable impact of \$0.1 million. Revenue from other customers partially offset the decrease in revenues from our five largest OEM customers driven by expanded product offerings and additions of new customers.

Implant revenue decreased \$1.4 million driven by our five largest OEM customers' management of their inventory levels, which accounted for \$1.6 million of the decrease in revenue, combined with unfavorable foreign currency exchange rate fluctuations of \$0.7 million. Revenue from other customers partially offset the decline in revenues from our five largest OEM customers.

Case revenue increased \$0.9 million due to increased revenue from our five largest OEM customers of \$2.3 million as well increased revenue from our non-orthopedic medical customers. Case revenue was negatively impacted by reduced revenue from other customers as well as unfavorable foreign currency exchange rate fluctuations, which had a \$0.1 million impact.

Other product revenue decreased \$0.2 million due to unfavorable foreign currency exchange rate fluctuations of \$0.2 million.

Gross Profit. Gross profit for the three month period ended July 3, 2010 decreased \$6.4 million, or 23.9%, to \$20.4 million from \$26.8 million for the comparable 2009 period due to the \$12.2 million decline in revenue combined with a decrease in gross margin. Gross margin as a percentage of revenue for the second quarter 2010 was 22.9% compared to 26.5% in the same period last year. This 3.6% reduction was primarily due to the 12.1% decline in revenue which reduced our ability to leverage fixed overhead costs, increased subcontracting costs and changes in

product mix. The increase in subcontracting costs related to our case product line and the consolidation of our Auburn, ME facility.

**Selling, General and Administrative Expenses.** For the three month period ended July 3, 2010, selling, general and administrative expenses (“SG&A”) were \$12.3 million compared with the three month period ended July 4, 2009 of \$13.2 million. The decrease was primarily driven by reduced employee compensation costs including non-cash restricted stock compensation expense related to continued cost control efforts implemented in the latter half of 2009 to offset the lower revenue levels.

**Facility Closure and Severance Costs.** Results of Operations include pre-tax charges of \$0.3 million and \$0.1 million for the three months ended July 3, 2010 and July 4, 2009, respectively, associated with employee cost reduction and efficiency actions and the consolidation of our Auburn, ME facility into other facilities that produce similar products. For the three month period ended July 3, 2010, these costs are comprised of \$0.2 million of severance costs and an additional \$0.1 million of moving expenses compared to \$0.1 million of severance costs for the period ended July 4, 2009. Costs charged to operations in the second quarter of 2010 were paid during second quarter. Included in accrued and other liabilities in the consolidated balance sheet as of July 3, 2010 is \$0.1 million of severance costs incurred during fiscal 2009 that have not yet been paid. These costs are all expected to be paid during 2010.

**Other (Income) Expense.** Interest expense for the three month period ended July 3, 2010 decreased \$0.1 million, or 4.2%, to \$1.5 million from \$1.6 million for the comparable period in 2009. This decrease reflects the reduction in aggregate outstanding indebtedness of \$34.2 million, or 27.4% as compared to July 4, 2009. The derivative gain in the second quarter 2010 consists of a gain on interest rate swap valuation of \$0.5 million related to our interest rate swap that has not been designated as a hedge as compared to a gain of \$0.2 million for the comparable period in 2009. The interest rate swaps are used to convert our variable rate long-term debt to fixed rates. Other income for the three month period ended July 3, 2010 increased \$0.1 million from the comparable period in 2009 due to favorable foreign currency exchange rate fluctuations on transactions denominated in foreign currencies.

Provision for Income Taxes. Our effective tax rate was 34.5% for the three month period ended July 3, 2010 as compared to 26.2% for the three month period ended July 4, 2009. Provision for income taxes decreased by \$0.8 million, or 26.3%, to \$2.4 million for the three month period ended July 3, 2010 from \$3.2 million for the comparable 2009 period primarily due to a \$5.3 million decrease in pre-tax income. Our effective tax rate differed from the U.S. Federal statutory rate of 35% primarily due to the favorable impact of foreign income taxes. Additionally, we have been adversely impacted by the absence of the research & development tax credit, which expired at the end of 2009. Pending legislation would retroactively reinstate the R&D tax credit to the beginning of 2010. This legislation, if enacted, would positively impact the effective tax rate in the period that it is enacted.

### Six Months Results of Operations

Revenue. Revenue for the six month period ended July 3, 2010 decreased \$29.1 million, or 14.4%, to \$173.3 million from \$202.4 million for the comparable 2009 period. Revenue for each of our principal product categories in these periods was as follows:

| Product Category | Six Months Ended |                 |
|------------------|------------------|-----------------|
|                  | July 3,<br>2010  | July 4,<br>2009 |
|                  | (unaudited)      |                 |
| Instruments      | \$ 67.1          | \$ 93.4         |
| Implants         | 56.7             | 59.0            |
| Cases            | 38.6             | 37.4            |
| Other            | 10.9             | 12.6            |
| Total            | \$ 173.3         | \$ 202.4        |

The \$29.1 million decrease in revenue was primarily driven by the \$26.3 million decrease in instrument revenue as our five largest OEM customers reduced spending on product launches compared to 2009. We also experienced reduced revenue as a result of the global economic environment, which has resulted in reduced overall revenue of 22.5% from our five largest OEM customers as they manage inventory levels and adjust the timing of their various product launches. The reduction in revenue was slightly offset by favorable foreign currency exchange rate fluctuations of \$0.7 million.

Instrument revenue decreased \$26.3 million. This decrease was driven by lower revenue from our five largest OEM customers of \$32.3 million due to the timing of their various product launch activity and management of inventory levels. Offsetting this decline in revenue was increased revenue from our other customers driven by expanded product offerings and additions of new customers. Foreign currency exchange rate fluctuations also partially offset the decline in revenue with a \$0.1 million favorable impact.

Implant revenue decreased \$2.3 million driven by our five largest OEM customers managing their inventory levels, which accounted for \$1.7 million of the decrease in revenue. Implant revenue was positively impacted by \$0.2 million of favorable foreign currency exchange rate fluctuation.

Case revenue increased \$1.2 million due to increased revenue from our five largest OEM customers of \$2.5 million as well as increased revenue from our non-orthopedic medical customers. Case revenues were also positively impacted by favorable foreign currency exchange rate fluctuations of \$0.2 million.

Other product revenue decreased \$1.7 million driven by a reduction in revenue from our largest customer in aerospace industry reacting to deteriorating market conditions in that sector. Related foreign currency exchange rate fluctuations

were favorable by \$0.2 million.

**Gross Profit.** Gross profit for the six month period ended July 3, 2010 decreased \$13.9 million, or 27.1%, to \$37.4 million from \$51.3 million for the comparable 2009 period due to the \$29.1 million decline in revenue and a decline in gross margin. Gross margin as a percentage of revenue for the six month period ended July 3, 2010 was 21.6% compared to 25.4% in the same period last year. This 3.8% reduction was primarily due to the 14.4% decline in revenue which reduced our ability to leverage fixed overhead costs, increased subcontracting costs and product mix. The increase in subcontracting costs related to our case produce line and the consolidation of our Auburn, ME facility.

**Selling, General and Administrative Expenses.** For the six month period ended July 3, 2010, selling, general and administrative expenses (“SG&A”) were \$24.9 million compared with the six month period ended July 4, 2009 of \$26.4 million. The improvement reflects reduced employee compensation costs including non-cash restricted stock compensation driven by cost control efforts implemented in the latter half of 2009 to offset lower revenue levels.

**Facility Closure and Severance Costs.** Results of Operations include pre-tax charges of \$0.9 million and \$0.2 million for the six months ended July 3, 2010 and July 4, 2009, respectively associated with employee cost reduction and efficiency actions and the consolidation of our Auburn, ME facility into other facilities that produce similar products. For the six month period ended July 3, 2010, these costs are comprised of \$0.6 million of severance costs and an additional \$0.3 million of moving expenses compared to \$0.2 million of severance costs for the period ended July 4, 2009. As of July 3, 2010 and January 2, 2010, severance accruals related to these cost reduction and efficiency actions totaled \$0.1 and \$0.8 million, respectively, and are included in accrued and other liabilities in the condensed consolidated balance sheets. The reduction in the accrual from January 2, 2010 represents payments made during the first half of 2010 of \$1.3 million, offset by additional severance costs incurred of \$0.6 million. Remaining costs are all expected to be paid during 2010.

**Other (Income) Expense.** Interest expense for the six month period ended July 3, 2010 decreased \$0.3 million, or 9.5%, to \$3.1 million from \$3.4 million for the comparable period in 2009. This decrease reflects the reduction in aggregate outstanding indebtedness \$34.2 million, or 27.4% as compared to July 4, 2009. The derivatives gain for the first half of 2010 consists of a gain on interest rate swap valuation of \$0.8 million related to our interest rate swap that has not been designated as a hedge as compared to a gain of \$0.6 million for the comparable period in 2009. The interest rate swaps are used to convert our variable rate long-term debt to fixed rates. Other expense for the six month period ended July 3, 2010 increased \$0.4 million from the comparable period in 2009, from a gain of \$0.3 million to a loss of \$0.1 million, due to unfavorable foreign currency exchange rate fluctuations on transactions denominated in foreign currencies.

**Provision for Income Taxes.** Our effective tax rate was 34.4% for the six month period ended July 3, 2010 as compared to 28.9% for the six month period ended July 4, 2009. Provision for income taxes decreased by \$3.2 million, or 50.2%, to \$3.2 million for the six month period ended July 3, 2010 from \$6.4 million for the comparable 2009 period and differed from the US Federal rate of 35% primarily due to the favorable impact of foreign income taxes. Additionally, we have been adversely impacted by the absence of the research & development tax credit, which expired at the end of 2009. Pending legislation would retroactively reinstate the R&D tax credit to the beginning of 2010. This legislation, if enacted, would positively impact the effective tax rate in the period that it is enacted.

## Liquidity and Capital Resources

### Current Market Conditions

We continue to experience challenging business conditions due to the overall economic environment that has resulted in reduced demand from our major OEM customers as they continue to work down inventory levels and manage the timing of their various product launch activities.

Current global economic conditions have resulted in increased volatility in the financial markets. During the first half of Fiscal 2010, 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 3, 2010 were cash generated from operations and borrowings under our senior revolving credit facility. Principal uses of cash in the six month period ended July 3, 2010 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 and growing the business.

**Operating Activities.** Operating activities generated cash of \$8.1 million in the six month period ended July 3, 2010 compared to \$23.6 million for the six month period ended July 4, 2009, a decrease of \$15.5 million. The decrease in cash from operations for the six month period ended July 3, 2010 is primarily a result of a \$9.7 reduction in net income and increased working capital requirements for accounts receivable and inventory driven by increases in revenue and production requirements in the second quarter of 2010 as compared to the fourth quarter of 2009.

**Investing Activities.** Capital expenditures of \$6.3 million were \$2.9 million lower in the six month period ended July 3, 2010 compared to the six month period ended July 4, 2009.

**Financing Activities.** Financing activities used \$5.5 million of cash in the six month period ended July 3, 2010 compared to \$6.8 million for the six month period ended July 4, 2009, due primarily to payments on long-term debt and capital leases of \$10.8 million, partially offset by cash received from a new asset-based 24 month term note of \$2.7 million at our Sheffield, UK facility and net borrowings on our revolving line of credit of \$2.5 million.

#### Capital Expenditures

Capital expenditures totaled \$6.3 million for the six months ended July 3, 2010, compared to \$9.2 million for the six month period ended July 4, 2009. Capital expenditures have been focused on areas strategically aligned to expand our capabilities to further support our Spine customers, expand our Malaysia operations and continue to increase efficiencies throughout our facilities.

#### Debt and Credit Facilities

As of July 3, 2010, we had an aggregate of \$90.8 million of outstanding indebtedness, which consisted of \$79.4 million of term loan borrowings outstanding under our Senior Credit Agreement, \$4.0 million of borrowings outstanding under our revolving credit facility, \$2.4 million of borrowings under our new UK asset-based 24-month term note, \$1.9 million of borrowings under our Malaysia short-term credit facility, and \$3.1 million of capital lease obligations. We had two outstanding letters of credit as of July 3, 2010 in the amounts of \$3.5 million and \$0.2 million.

In March, 2010, our Sheffield, UK unit obtained a new £3.0 million facility, comprised of a 24-month asset-based term note and short-term revolver facility. The term note matures in March 2012 with monthly payments plus interest at 2.75% per year. The short-term revolver is due on demand and accrues interest at 3.50% per year. As of July 3, 2010, \$2.4 million was outstanding on the term loan and there were no borrowings on the short-term revolver. The term note and revolver are secured by certain assets of our Sheffield, UK unit, which had a net book value of approximately \$6.3 million as of July 3, 2010.

The 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. The Senior Credit Agreement also contains covenants restricting certain corporate actions, including asset dispositions, acquisitions, paying dividends and certain other restricted payments, changes of control, incurring indebtedness, incurring liens, making loans and investments and transactions with affiliates. The senior credit facility is secured by substantially all of the Corporation's assets. The Corporation's Senior Credit Agreement also contains customary events of default.

On August 4, 2010, the Corporation entered into a limited waiver (the "Limited Waiver") to its Senior Credit Agreement, dated as of June 13, 2006, by and among the Corporation, Wells Fargo Bank, National Association (as successor by merger to Wachovia Bank, National Association), as administrative agent (the "Agent"), and various other lenders that are party thereto. Subject to certain conditions, the Limited Waiver provides a waiver of compliance with certain covenants, and related events of default, set forth in the Credit Facility for the second and third fiscal quarters of 2010. Specifically, the Limited Waiver waives those certain events of default that have occurred or are anticipated to occur under the Credit Facility as a result of or relating to:

(1) Failure of the Corporation to meet the minimum EBITDA to fixed charges ratio for the second and third fiscal quarter of 2010, but only to the extent that the Corporation maintains a ratio of at least 0.90 to 1.0 for the second fiscal quarter of 2010 and a ratio of at least 1.0 to 1.0 for the third fiscal quarter of 2010; and

(2) The Corporation exceeding the maximum amount of investments permitted to be made in foreign subsidiaries for each of the second and third fiscal quarters of 2010, but only to the extent that the aggregate amount of investments in the Corporation's foreign subsidiaries, as of the end of each of the second and third fiscal quarters of 2010, does not exceed \$15 million.

The Corporation was in compliance with all covenants under the Senior Credit Agreement as of July 3, 2010. A copy of the Limited Waiver is attached hereto as Exhibit 10.50 and incorporated herein by reference.

The Corporation's Senior Credit Agreement, including the revolving credit facility, which has a balance of \$83.4 million at July 3, 2010, matures in June 2011. We have begun to explore refinancing alternatives to pay off the remaining balance and to establish adequate funds for future expansion. At this time, we believe that we will have multiple financing options and we anticipate completing a refinancing in the second half of 2010.



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 \$0.1 million in capital expenditures for environmental, health and safety in the six month period ended July 3, 2010 compared to \$0.3 million for the comparable 2009 period.

In connection with past acquisitions, we completed Phase I environmental 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. 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 3, 2010.

#### New Accounting Pronouncements

Disclosures about Fair Value Measurements. In January 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2010-06, “Improving Disclosures about Fair Value Measurements”. ASU 2010-06 requires additional disclosures about fair value measurements including transfers in and out of Levels 1 and 2 and a higher level of disaggregation for the different types of financial instruments. For the reconciliation of Level 3 fair value measurements, information about purchases, sales, issuances and settlements are presented separately. This standard is effective for interim and annual reporting periods beginning after December 15, 2009 with the exception of revised Level 3 disclosure requirements which are effective for interim and annual reporting periods beginning after December 15, 2010. Comparative disclosures are not required in the year of adoption. The Corporation adopted the provisions of the standard on January 3, 2010, which did not have an impact on the Corporation’s financial position, results of operations or cash flows.

### 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 2, 2010. Our exposure to these risks, at the end of the second quarter covered by this report, has not changed materially since January 2, 2010.

### 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 3, 2010.

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.

## 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 2, 2010, which could materially affect our business, financial condition or future results. Except as set forth below, there have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K. The risk factor under "RISKS RELATED TO OUR INDUSTRY" entitled "Recent discussion of US Healthcare reform may impact our medical device customers or business directly." is replaced in its entirety by the following:

The impact of the recently enacted federal healthcare reform legislation on our business remains uncertain.

In March 2010, the U.S. Congress adopted and President Obama signed into law comprehensive health care reform legislation through the passage of the Patient Protection and Affordable Health Care Act (H.R. 3590) and the Health Care and Education Reconciliation Act (H.R. 4872). Among other initiatives, these bills impose a 2.3% excise tax on domestic sales of medical devices following December 31, 2012, which is estimated to contribute approximately \$27 billion to healthcare reform. Various healthcare reform proposals have also emerged at the state level. The excise tax may impact results of operations following December 31, 2012, however we cannot predict with certainty what healthcare initiatives, if any, will be implemented at the state level, or what the ultimate effect of federal health care reform or any future legislation or regulation will have on us.

Many of the details of the new law will be included in new and revised regulations, which have not yet been promulgated, and require additional guidance and specificity to be provided by the Department of Health and Human Services, Department of Labor and Department of the Treasury. Accordingly, while it is too early to understand and predict the ultimate impact of the new legislation on our business, the legislation could have a material adverse effect on our business, cash flows, financial condition and results of operations.

ITEM 5. OTHER INFORMATION

As previously reported, the employment of John Hynes, the Corporation's Chief Operating Officer of European Operations, ended April 22, 2010. The Corporation adhered to the terms of his original employment agreement, which was entered into on October 17, 2007 and such was filed on Form 8-K on November 8, 2007. On June 9, 2010 the Corporation entered into an additional agreement, a compromise agreement, with Mr. Hynes and such was filed on Form 8-K on June 16, 2010.

ITEM 6. EXHIBITS

- 10.45...      Compromise Agreement of Mr. Hynes (incorporated by reference to Exhibit 99.1 to our Form 8-K filed June 16, 2010).
  
- 10.46...      Second Amendment to Employment Agreement, dated as of June 10, 2010, by and between Symmetry Medical Inc. and Brian S. Moore (incorporated by reference to Exhibit 99.2 to our Form 8-K filed June 16, 2010).
  
- 10.47         Limited Waiver to Amended and Restated Credit Agreement, executed August 4, 2010, among Symmetry Medical Inc., as Borrower and Wells Fargo Bank, National Association (as successor by merger to Wachovia Bank, National Association), as Administrative Agent for the Lenders.\*

- 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.

... Indicates management contract or compensatory plans or arrangements required to be filed as an exhibit.

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 6, 2010