DAIS ANALYTIC CORP
Form 10-Q
May 15, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended **March 31, 2018**

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from _______ to _______

Commission File No. **000-53554**

DAIS ANALYTIC CORPORATION

(Exact name of Registrant as specified in its charter)

New York	**14-1760865**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
11552 Prosperous Drive, Odessa, Florida	**33556**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(727) 375-8484**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 at least the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 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 x No ¨

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

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	x
Emerging Growth Company	o		

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

There were 139,351,432 shares of the Registrant's $0.01 par value common stock outstanding as of May 11, 2018.

DAIS ANALYTIC CORPORATION

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

DAIS ANALYTIC CORPORATION

CONDENSED BALANCE SHEETS

		March 31, 2018 (Unaudited)		December 31, 2017
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$	43,276		122,036
Accounts receivable, net		3,571		5,058
Other receivables		9,441		3,598
Inventory		80,435		101,607
Prepaid expenses		36,857		12,294
Total Current Assets		173,580		244,593
Property and equipment, net, including accumulated depreciation of $372,082 and $371,917 at March 31, 2018 and December 31, 2017, respectively		82,034		91,900
OTHER ASSETS:				
Deposits		5,080		5,080
Patents, net, including accumulated amortization of $267,292 and $266,915 at March 31, 2018 and December 31, 2017, respectively		125,521		117,606
Total Other Assets		130,601		122,686
TOTAL ASSETS	$	386,215		459,179
LIABILITIES AND STOCKHOLDERS' DEFICIT				
CURRENT LIABILITIES:				
Accounts payable, including related party payables of $117,994 and $104,543 at March 31, 2018 and December 31, 2017, respectively	$	475,076	$	353,193
Accrued expenses, other, including interest due to related party of $39,413 and $88,441 at March 31, 2018 and December 31, 2017, respectively		388,239		345,654
Accrued compensation and related benefits		1,776,612		1,727,259
Customer deposits		18,481		120,579
Note payable to related party		1,332,000		1,332,000
Current portion of deferred revenue		486,156		498,656
Derivative liabilities		645,026		243,501

Convertible notes payable, net of unamortized debt discount and deferred debt issuance costs		138,485		3,788
Total Current Liabilities		5,260,075		4,624,630
Total Liabilities		5,260,075		4,624,630
STOCKHOLDERS' DEFICIT				
Preferred stock; $0.01 par value; 10,000,000 shares authorized; no shares issued and outstanding		-		-
Common stock; $0.01 par value; 240,000,000 shares authorized; 140,608,645 and 140,608,645 shares issued; and 139,351,432 and 139,351,432 shares outstanding at March 31, 2018 and December 31, 2017, respectively		1,406,087		1,406,087
Capital in excess of par value		43,003,003		43,003,003
Accumulated deficit		(47,820,838)		(47,112,429)
		(3,411,748)		(2,703,339)
Treasury stock at cost, 1,257,213 shares		(1,462,112)		(1,462,112)
Total Stockholders' Deficit		(4,873,860)		(4,165,451)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$	386,215	$	459,179

See accompanying Notes to Unaudited Condensed Financial Statements.

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DAIS ANALYTIC CORPORATION

CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended March 31, 2018	For the Three Months Ended March 31, 2017
REVENUE		
Sales	$ 240,674	$ 21,376
Royalty and license fees	12,500	-
Total revenue	253,174	21,376
COST OF GOODS SOLD	172,172	21,020
GROSS MARGIN	81,002	356
OPERATING EXPENSES		
Research and development expenses, net of government grant proceeds of $8,666 and $119,906 for the three months ended March 31, 2018 and 2017, respectively	75,463	66,918
Selling, general and administrative expenses	378,015	339,724
Total operating expenses	453,478	406,642
LOSS FROM OPERATIONS	(372,476)	(406,286)
OTHER INCOME (EXPENSE)		
Interest expense	(227,359)	(67,989)
Change in fair value of derivative liabilities	(108,574)	
Total other income (expense), net	(335,933)	(67,989)
NET LOSS	$ (708,409)	$ (474,275)
NET LOSS PER COMMON SHARE, BASIC AND DILUTED	$ (0.01)	$ (0.00)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	139,351,432	120,873,594

See accompanying Notes to Unaudited Condensed Financial Statements.

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DAIS ANALYTIC CORPORATION

CONDENSED STATEMENT OF STOCKHOLDERS' DEFICIT

(Unaudited)

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Accumulated Deficit	Treasury Stock	Total Stockholders' Deficit
Balance at December 31, 2017	140,608,645	$ 1,406,087	$ 43,003,003	$ (47,112,429)	$ (1,462,112)	$ (4,165,451)
Net loss	-	-	-	(708,409)	-	(708,409)
Balance at March 31, 2018 (unaudited)	140,608,645	$ 1,406,087	$ 43,003,003	$ (47,820,838)	$ (1,462,112)	$ (4,873,860)

See accompanying Notes to Unaudited Condensed Financial Statements.

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DAIS ANALYTIC CORPORATION

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Three Months Ended March 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (708,409)	$ (474,275)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Amortization of deferred debt issue costs	2,614	-
Depreciation and amortization	10,242	16,841
Change in fair value of derivative liability	108,574	-
Non-cash interest expenses	117,951	-
Amortization of debt discount	57,084	51,434
Stock issued for services	-	12,000
Increase (decrease) in allowance for doubtful accounts	-	(3,647)
(Increase) decrease in:		
Accounts receivable	1,487	3.622
Inventory	21,172	(5,288)
Other receivables	(5,843)	5,908
Prepaid expenses/Other current assets	(24,563)	(43,899)
Increase (decrease) in:		
Accounts payable	121,883	142,958
Accrued related party	-	51,602
Accrued expenses	91,938	8,922
Customer Deposits	(102,098)	1,515
Deferred revenue	(12,500)	-
Net cash used in operating activities	(320,468)	(232,307)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in patent costs	(8,292)	(8,832)
Net cash used in investing activities	(8,292)	(8,832)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable – related party	-	225,000
Proceeds from note payable	250,000	-
Net cash provided by financing activities	250,000	225,000
Net decrease in cash and cash equivalents	(78,760)	(16,139)

Cash and cash equivalents, beginning of period		122,036		21,066
Cash and cash equivalents, end of period	$	43,276	$	4,927
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest	$	1,287	$	119
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Issuance of common stock for settlement of accrued expenses	$	-	$	90,000
Issuance of common stock for settlement of interest due to related party	$	-	$	17,200
Issuance of common stock for deferred debt issuance costs	$	-	$	-
Debt costs deducted from proceeds of notes	$	7,500	$	-
Issuance of warrants for debt modification	$	-	$	127,064
Initial derivative liability at issuance of note	$	292,951	$	-
Initial debt discount at issuance of note	$	175,000	$	-

See accompanying Notes to Unaudited Condensed Financial Statements.

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Note 1. Background Information

Dais Analytic Corporation (the "Company"), a New York corporation, has developed and is commercializing applications using its nanostructure polymer technology. The first commercial product is an energy recovery ventilator ("ERV") (core and systems) for use in commercial Heating, Ventilating, and Air Conditioning (HVAC) applications. The second commercial product is NanoClear^{TM}, a water cleanup process useful in the creation of potable water from most forms of contaminated water including industrial process waste water (petrochemical, steel, etc.) sea, brackish, or waste water. In addition to direct sales, the Company licenses its nanostructures polymer technology to strategic partners in the aforementioned applications and is in various stages of development with regard to other applications employing its base technologies. The Company was incorporated in April 1993 and its corporate headquarters is located in Odessa, Florida.

The Company is dependent on third parties to manufacture the key components needed for its nanostructured based materials and some portion of the value-added products made with these materials. Accordingly, a suppliers' failure to supply components in a timely manner, or to supply components that meet the Company's quality, quantity and cost requirements or technical specifications, or the inability to obtain alternative sources of these components on a timely basis or on acceptable terms, would create delays in production of the Company's products and/or increase its unit costs of production. Certain of the components or the processes of the Company's suppliers are proprietary. If the Company was ever required to replace any of its suppliers, it should be able to obtain comparable components from alternative suppliers at comparable costs but this would create a delay in production.

The Company's accompanying condensed financial statements are unaudited, but in the opinion of management reflect all adjustments necessary to fairly state the Company's financial position, results of operations, stockholders' deficit and cash flows as of and for the dates and periods presented. The financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information.

The unaudited financial statements and notes are presented as permitted by Form 10-Q. Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted although the Company generally believes that the disclosures are adequate to ensure that the information presented is not misleading. The accompanying financial statements and notes should be read in conjunction with the audited financial statements and notes of the Company for the fiscal year ended December 31, 2017 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 2, 2018. The results of operations for the three month period ended March 31, 2018 are not necessarily indicative of the results that may be expected for any future quarters or for the entire year ending December 31, 2018.

Note 2. Going Concern and Management’s Plans

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. For the three months ended March 31, 2018, the Company generated a net loss of $708,409 and the Company has incurred significant losses since inception. As of March 31, 2018, the Company had an accumulated deficit of $47,820,838, a stockholders’ deficit of $4,873,860 and cash and cash equivalents of $43,276. The Company used $320,468 and $232,307 of cash from operations during the three months ended March 31, 2018 and 2017, respectively, which was funded by proceeds from borrowings from notes and debentures. There is no assurance that such financing will be available in the future. These factors raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date that the financial statements are issued. The Company is currently pursuing the following sources of short and long-term working capital:

1. The Company is holding preliminary discussions with parties who are interested in licensing, purchasing the rights to or establishing a joint venture to commercialize applications of the Company’s technology.

2. The Company is seeking growth capital from certain strategic and/or government (grant) related sources. These sources may, pursuant to any agreements that may be developed in conjunction with such funding, assist in the product definition and design, roll-out and channel penetration of products.

3. The Company is holding discussions with investors and investment banks to obtain debt and/or equity financing.

See accompanying notes to condensed consolidated financial statements.

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Symmetry Medical Inc.

Notes to Condensed Consolidated Financial Statements

(In Thousands, Except Per Share Data)

1. Basis of Presentation

The condensed consolidated financial statements include the accounts of Symmetry Medical, Inc. and its wholly-owned subsidiaries (collectively referred to as the Corporation), Symmetry Medical USA Inc., Jet Engineering, Inc., Ultrexx, Inc., Othy Limited, Poly-Vac S.A. and Mettis (UK) Limited, including its wholly-owned subsidiary, Thornton Precision Components Limited. The Corporation is a global supplier of integrated products and services consisting primarily of surgical implants, instruments and cases to orthopedic and other medical device companies.

The condensed consolidated financial statements of the Corporation have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying condensed consolidated financial statements contain all material adjustments (consisting only of normal recurring adjustments) necessary to present fairly the consolidated financial position of the Corporation, its results of operations and cash flows. Interim results are not necessarily indicative of results for a full year. The condensed consolidated financial statements included herein should be read in conjunction with the consolidated financial statements and the notes thereto included in the Corporation s 2004 Annual Report on Form 10-K.

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

The Corporation s year end is the 52 or 53 week period ending the Saturday closest to December 31. Fiscal year 2005 and 2004 are 52 week years. As such, quarters are 13 weeks long ending the Saturday closest to March 31, June 30, or September 30. References in these consolidated financial statements to the three months ended refer to these financial periods, respectively.

2. Inventories

Inventories consist of the following:

	July 2, 2005	January 1, 2005

Raw material and supplies	$ 5,176	$ 6,012
Work-in-process	18,227	20,561
Finished goods	9,073	7,510
	$ 32,476	$ 34,083

3. Property and Equipment

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

	July 2, 2005	January 1, 2005
Land	$ 1,297	$ 1,337
Buildings and improvements (20 to 40 years)	22,690	22,117
Machinery and equipment (5 to 15 years)	83,701	74,064
Office equipment (3 to 5 years)	5,759	5,307
Construction-in-progress	10,355	4,170
	123,802	106,995
Less accumulated depreciation	39,599	35,141
	$ 84,203	$ 71,854

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4. Intangible Assets

Intangible assets subject to amortization consist of technology and customer related intangible assets acquired in connection with our acquisition of Mettis (UK) Limited on June 11, 2003. These assets ($13,014 at July 2, 2005 and $13,482 at January 1, 2005) are being amortized using the straight-line method over 9 to 25 years. The Corporation has $3,717 and $3,845 of indefinite lived intangible assets at July 2, 2005 and January 1, 2005, respectively.

5. New Accounting Pronouncements

On December 16, 2004, the FASB issued Statement No. 123 (revised 2004), *Share-Based Payment*, which is a revision of FASB Statement No. 123, *Accounting for Stock Based Compensation*. Statement 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends FASB Statement No. 95, *Statement of Cash Flows*. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

Statement 123(R) must be adopted by us no later than January 1, 2006. We expect to adopt Statement 123(R) on January 1, 2006 using the modified prospective method in which compensation cost is recognized beginning with the effective date based on the requirements of Statement 123(R) for all share-based payments granted after the effective date and based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of Statement 123(R) that remain unvested on the effective date.

As permitted by Statement 123, we currently account for share-based payments to employees using Opinion 25 s intrinsic value method and, as such, generally recognize no compensation cost for employee stock options. Accordingly, the adoption of Statement 123(R) s fair value method will have a significant impact on our results of operations, although it will have no impact on its overall financial position. The impact of adoption of Statement 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro forma net income and earnings per share in Note 2 to our consolidated financial statements. Statement 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. There were no such cash flows in prior periods.

6. Stock-Based Compensation

The Corporation has elected to follow APB No. 25, Accounting for Stock Issued to Employees, in accounting for its stock options and; accordingly, no compensation cost has been recognized for stock options in the consolidated financial statements. However, SFAS 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, requires pro forma presentation as if compensation costs had been expensed under the fair value method of SFAS No. 123. For purposes of pro forma disclosure, the estimated fair value of the options at the date of grant is amortized to expense over the vesting period.

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The following table illustrates the effect on net income as if compensation expense had been recognized for the periods ended:

	Three Months Ended		Six Months Ended	
	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004
Reported net income	$ 8,619	$ 2,804	$ 16,283	$ 2,698
Pro forma stock-based compensation expense (net of tax)	(54)	(75)	(99)	(143)
Stock-based employee compensation recorded (net of tax)	15		19	
Adjusted net income	$ 8,580	$ 2,729	$ 16,203	$ 2,555
Basic net income per share applicable to common:				
Reported net income (loss) per share	$ 0.26	$ 0.18	$ 0.49	$ 0.17
Stock-based compensation expense (net of tax) per share		(0.01)		(0.01)
Adjusted net income (loss) per share	$ 0.26	$ 0.17	$ 0.49	$ 0.16
Diluted net income (loss) per share applicable to common:				
Reported net income (loss) per share	$ 0.25	$ 0.17	$ 0.47	$ 0.16
Stock-based compensation expense (net of tax) per share		(0.01)		(0.01)
Adjusted net income (loss) per share	$ 0.25	$ 0.16	$ 0.47	$ 0.15

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 has a special services business serving primarily aerospace customers, which does not meet the quantitative disclosure requirements of SFAS 131. The Corporation manages its business and operates in a single reportable business segment. Because of the similar economic characteristics of the operations, including the nature of the products, comparable level of FDA regulations, same or similar customers, those operations have been aggregated following the provisions of SFAS 131 for segment reporting purposes.

The Corporation is a multi-national corporation with operations in the United States, the United Kingdom and France. As a result, the Corporation s financial results can be impacted by currency exchange rates in the foreign markets in which the Corporation sells its products. While exposure to variability in foreign currency exists, the Corporation does not believe it is significant to its operations and any variability is somewhat offset through the location of its manufacturing facilities. Revenue is attributed to geographic locations based on the location to which we ship our products.

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Revenue From External Customers:

	Three Months Ended		Six Months Ended	
	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004
United States	$ 45,447	$ 35,524	$ 87,428	$ 67,023
Ireland	7,974	5,231	16,291	9,394
United Kingdom	8,199	2,218	14,869	11,674
Other foreign countries	8,557	10,116	15,349	10,836
Total Net Revenues	$ 70,177	$ 53,089	$ 133,937	$ 98,927

Concentration of Credit Risk:

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

Quarter ended July 2, 2005 Two customers representing approximately 30% and 15% of revenue, respectively.

Quarter ended July 3, 2004 Four customers representing approximately 21%, 15%, 15% and 10% of revenue, respectively.

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

	Three Months Ended		Six Months Ended	
	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004
Implants	$ 25,457	$ 18,771	$ 48,414	$ 35,782
Instruments	24,497	17,409	47,847	32,134
Cases	15,762	12,923	29,606	23,481
Other	4,461	3,986	8,070	7,530
Total Revenue	$ 70,177	$ 53,089	$ 133,937	$ 98,927

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8. Net Income (Loss) Per Share

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

	Three Months Ended		Six Months Ended	
	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004
Net income	$ 8,619	$ 5,148	$ 16,283	$ 7,358
Preferred stock dividends		2,344		4,660
Net income (loss) available to common shareholders	$ 8,619	$ 2,804	$ 16,283	$ 2,698
Weighted-average common shares outstanding basic	33,239	15,761	33,207	15,762
Effect of stock options and warrants	1,238	823	1,089	805
Weighted-average common shares outstanding and assumed conversions	34,477	16,584	34,296	16,567
Net income (loss) per share available to common shareholders:				
Basic	$ 0.26	$ 0.18	$ 0.49	$ 0.17
Diluted	$ 0.25	$ 0.17	$ 0.47	$ 0.16

9. Commitments and Contingencies

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

10. Comprehensive Income

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

	Three Months Ended	Six Months Ended

	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004
Net Income	$ 8,619	$ 5,148	$ 16,283	$ 7,358
Foreign currency translation adjustments	(4,465)	104	(6,039)	1,233
Comprehensive income	$ 4,154	$ 5,252	$ 10,244	$ 8,591

11. Subsequent Event

On July 22, 2005, the Corporation completed an offering of common stock as described in Form S1, originally filed with the Securities and Exchange Commission on June 27, 2005. The Corporation issued 0.5 million new shares to the public and received $10,624 in net proceeds, before considering offering expenses. The Corporation expects to use a portion of the proceeds to repay all of the indebtedness under our short-term credit facility in the United Kingdom, which had a balance of $5,003 at July 2, 2005. The remainder of the proceeds will be used for general corporate purposes. In addition, 11.0 million shares were also sold in the offering by certain of our existing shareholders.

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

Overview

The Corporation is the world s largest independent provider of implants and related instruments and cases to orthopedic device manufacturers. The Corporation also designs, develops and produces these products for companies in other segments of the medical device market, including dental, osteobiologic and endoscopy sectors, and provides limited specialized products and services to non-healthcare markets.

The Corporation offers its customers Total Solutions for complete implant systems implants, instruments and cases. While the Corporation s revenue to date has been derived primarily from the sale of implants, instruments and cases separately, or instruments and cases together, its ability to provide Total Solutions for complete implant systems has already proven to be attractive to its customers and the Corporation expects this capability will provide it with growth opportunities. In addition, the Corporation expects that its Total Solutions capability will increase the relative percentage of value added products that it supplies to its customers.

The Corporation s 2004 Annual Report on Form 10-K and Registration Statement on Form S-1, as amended, originally filed June 27, 2005 with the Securities and Exchange Commission, provide additional information about the Corporation s business, operations and financial condition.

Second Quarter Results of Operations

Revenue. Revenue for the three month period ended July 2, 2005 increased $17.1 million, or 32.2%, to $70.2 million from $53.1 million for the comparable 2004 period. Revenue for each of the Corporation s principal product categories in these periods was as follows:

Product Category	**Three Months Ended**	
	July 2, 2005	**July 3, 2004**
	(in millions)	
Implants	$ 25.5	$ 18.8
Instruments	24.5	17.4
Cases	15.8	12.9
Other	4.5	4.0
Total	$ 70.2	$ 53.1

The $17.1 million increase in revenue resulted from increased implant, instrument, case, and non-healthcare/other sales of $6.7 million, $7.1 million, $2.8 million, and $0.5 million, respectively, as a result of increased demand from customers due primarily to continued industry growth, their launches of new systems and an increase in the Corporation s market share.

Gross Profit. Gross profit for the three month period ended July 2, 2005 increased $5.3 million, or 33.4%, to $21.4 million from $16.1 million for the comparable 2004 period. This increase in gross profit resulted from increased revenues and improved leveraging of fixed costs. As a percentage of revenue, gross margin was 30.6% for the three month period ended July 2, 2005, compared to 30.3% for the comparable 2004 period.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the three month period ended July 2, 2005 increased $1.0 million, or 20.9%, to $6.8 million from $5.8 million for the comparable 2004 period. This increase in expenses primarily resulted from increases in costs associated with the increase in revenue. As a percentage of revenue, selling, general and administrative expenses declined to 9.6% of revenue for the three month period ended July 2, 2005 from 11.0% of revenue for the comparable 2004 period. This 1.4% decrease as a percentage of revenue was attributable to controlled spending combined with a 32.2% increase in revenue.

Other(Income) Expense. Interest expense for the three month period ended July 2, 2005 decreased $2.9 million, or 76.1%, to $0.8 million from $3.6 million for the comparable 2004 period. This decrease primarily reflects the decrease in senior and subordinated debt that resulted from the repayment of such debt with proceeds of the Corporation s initial public offering of its common stock in the fourth quarter of fiscal 2004.

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Interest rate swap valuation for the three month period ended July 2, 2005 was expense of $0.2 million compared to income of $1.2 million for the comparable 2004 period. This decrease in income was primarily due to longer term market interest rates decreasing in the six months ended July 2, 2005, even though the short term interest rates were increasing, compared to significant interest rate increases in the comparable 2004 period.

Other for the three month period ended July 2, 2005 was expense of $0.7 million compared to income of $0.1 million for the comparable 2004 period. This decrease primarily due to net unrealized foreign exchange losses in the six months ended July 2, 2005 period compared to net unrealized foreign exchange gains in the comparable 2004 period.

Provision for Income Taxes. The Corporation s effective tax rate was 33.9% for the three month period ended July 2, 2005 as compared to 34.1% for the comparable 2004 period. The decrease was primarily due to tax rate differentials in certain jurisdictions. Provision for income taxes increased by $1.7 million, or 65.8%, to $4.4 million for the three month period ended July 2, 2005 from $2.7 million for the comparable 2004 period, due primarily to higher pre-tax earnings.

Preferred Stock Dividends. The Corporation repurchased or reclassified to common stock all of the Corporation s outstanding preferred stock in the fourth quarter of fiscal 2004 in connection with the Corporation s initial public offering. As a result, there were no preferred stock dividends in the six months ended July 2, 2005. The Corporation had preferred stock dividends of $2.3 million for the three months ended July 3, 2004.

Six Months Results of Operations

Revenue. Revenue for the six month period ended July 2, 2005 increased $35.0 million, or 35.4%, to $133.9 million from $98.9 million for the comparable 2004 period. Revenue for each of the Corporation s principal product categories in these periods was as follows:

Product Category	**Six Months Ended**	
	July 2, 2005	**July 3, 2004**
	(in millions)	
Implants	$ 48.4	$ 35.8
Instruments	47.8	32.1
Cases	29.6	23.5
Other	8.1	7.5
Total	$ 133.9	$ 98.9

The $35.0 million increase in revenue resulted from increased implant, instrument, case, and non-healthcare/other sales of $12.6 million, $15.7 million, $6.1 million, and $0.6 million, respectively, as a result of increased demand from customers due primarily to continued industry growth, their launches of new systems and an increase in the Corporation s market share.

Gross Profit. Gross profit for the six month period ended July 2, 2005 increased $12.1 million, or 42.5%, to $40.8 million from $28.7 million for the comparable 2004 period. This increase in gross profit resulted from increased revenues and improved leveraging of fixed costs. As a percentage of revenue, gross margin was 30.5% for the six month period ended July 2, 2005 compared to 29.0% for the comparable 2004 period.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the six month period ended July 2, 2005 increased $2.4 million, or 20.9%, to $13.7 million from $11.3 million for the comparable 2004 period. This increase in expenses primarily resulted from increases in costs associated with the increase in revenue. As a percentage of revenue, selling, general and administrative expenses declined to 10.2% of revenue in the six month period ended July 2, 2005 from 11.5% for the comparable 2004 period. This 1.3% decrease as a percentage of revenue was attributable to controlled spending combined with a 35.4% increase in revenue.

Other (Income) Expense. Interest expense for the six month period ended July 2, 2005 decreased $5.5 million, or 76.1%, to $1.7 million from $7.2 million for the comparable 2004 period. This decrease primarily reflects the decrease in senior and subordinated debt that resulted from the proceeds of the Corporation s initial public offering of its common stock in the fourth quarter of fiscal 2004.

Interest rate swap valuation for the six month period ended July 2, 2005 was income of $0.1 million compared to income of $0.8 million for the comparable 2004 period. This decrease in income was primarily due to longer term market interest rates increasing slower in the six months ended July 2, 2005 compared to the six months ended July 3, 2004, resulting in less of a mark to market valuation gain.

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Other for the six month period ended July 2, 2005 was expense of $0.8 million compared to income of $0.2 million for the comparable 2004 period. This decrease in income primarily due to net unrealized foreign exchange losses in the six months ended July 2, 2005 compared to net unrealized foreign exchange gains in the comparable 2004 period.

Provision for Income Taxes. The Corporation s effective tax rate for the six month period ended July 2, 2005 was 33.9% as compared to 34.2% for the comparable 2004 period. The decrease was primarily due to tax rate differentials in certain jurisdictions. Provision for income taxes for the six months ended July 2, 2005 increased by $4.6 million, or 118.6%, to $8.4 million from $3.8 million for the comparable 2004 period, due primarily to higher pre-tax earnings.

Preferred Stock Dividends. The Corporation repurchased or reclassified to common stock all of the Corporation s outstanding preferred stock in the fourth quarter of fiscal 2004 in connection with the Corporation s initial public offering. As a result, there were no preferred stock dividends in the six months ended July 2, 2005. The Corporation had preferred stock dividends of $4.7 million for the six months ended July 3, 2004.

Liquidity and Capital Resources

The Corporation s principal source of cash in the six month period ended July 2, 2005 was primarily cash generated from operations and borrowings under the Corporation s revolving credit facility. Principal uses of cash in the six month period ended July 2, 2005 included the financing of working capital, capital expenditures and debt service. The Corporation expects that its principal uses of cash in the future will be to finance working capital, capital expenditures and to service debt.

The Corporation generated cash from operations of $23.0 million in the six month period ended July 2, 2005 compared to $5.9 million for the six month period ended July 3, 2004. This increase is primarily the result of a $10.8 million increase in net income, adjusted for non-cash items, including depreciation expense and the interest rate swap valuation. Working capital increased $0.3 million in the six month period ended July 2, 2005. The working capital provided by changes in other assets, inventories, accounts payable and accrued expenses were offset by the use of working capital in accounts receivable.

The Corporation received $0.6 million for purchases of its common stock under its 2004 Employee Stock Purchase Plan (ESPP) in the six month period ended July 2, 2005. On March 28, 2005, the Corporation registered on Form S-8 under the Securities act of 1933 a total of 0.6 million shares of its common stock that may be issued under the ESPP. The ESPP began accepting contributions to the plan subsequent to this registration.

Capital Expenditures

Capital expenditures totaled $20.8 million for the six month ended July 2, 2005, compared to $8.1 million for the six month period ended July 3, 2004, and were primarily used to expand and enhance production capacity in most of the Corporation s manufacturing facilities.

Debt and Credit Facilities

In connection with the Corporation s initial public offering of its common stock in the fourth quarter of fiscal 2004, it entered into a $75.0 million senior secured credit facility, consisting of a $35.0 million five-year term loan and a $40.0 million five-year revolving credit facility.

As of July 2, 2005, we had an aggregate of $47.9 million of outstanding indebtedness, which consisted of $30.2 million of term loan borrowings outstanding under our senior credit facility, no borrowings outstanding under our revolving credit facility, $5.0 million of borrowings under our U.K. short-term credit facility and $12.7 million of capital lease obligations. We had no outstanding letters of credit as of July 2, 2005.

The Corporation s 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 Corporation was in compliance with its financial and restrictive covenants under the senior credit facility as of July 2, 2005.

The Corporation believes that cash flow from operating activities and borrowings under its senior credit facility will be sufficient to fund currently anticipated working capital, planned capital spending and debt service requirements for the foreseeable future, including at least the next twelve months. The Corporation regularly reviews acquisitions and other strategic opportunities, which may require additional debt or equity financing. The Corporation currently does not have any pending agreements to consummate any acquisition or other strategic opportunity.

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Off-Balance Sheet Arrangements

The Corporation s off-balance sheet arrangements include the Corporation s operating leases and letters of credit. There have been no material changes from the information provided in the Company s Annual Report on Form 10-K for the year ended January 1, 2005.

Environmental

There have been no material changes from the information provided in the Corporation s Annual Report on Form 10-K for the year ended January 1, 2005.

Critical Accounting Policies and Estimates

The preparation of the Corporation s 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. The Corporation s Annual Report on Form 10-K for the year ended January 1, 2005 includes a summary of the critical accounting policies the Corporation believes are the most important to aid in understanding its financial results. There have been no material changes to these critical accounting policies that impacted the Corporation s reported amounts of assets, liabilities, revenues or expenses during the six months ended July 2, 2005.

Cautionary Notice Regarding Forward-Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q and other written and oral statements made from time to time by the Corporation do not relate strictly to historical or current facts. As such they are considered forward-looking statements that provide current expectations or forecasts of future events. Forward-looking statements typically are identified by the use of terms such as may, will, should, expect, anticipate, believe, could, estimate, intend and similar words, although some forward-looking statements are expressed differently. Factors that could cause the Corporation s actual results to differ materially from the expectations expressed in our forward-looking statements include, but are not limited to, the following: changes in general economic conditions in the United States and Europe; our ability to retain existing customers and attract new customers; the competitive nature of the orthopedic device market; the pursuit of strategic acquisitions or encountering unforeseen difficulties in integrating acquisitions; the degree to which we are leveraged and our significant debt service obligations; the impact of work stoppages and other labor matters; general economic or business conditions affecting the orthopedic device market being less favorable than expected; our ability to anticipate changes in technology and regulatory standards and to successfully develop and introduce new and enhanced products on a timely basis; the unpredictability of intellectual property protection and maintenance and other intellectual property issues; any future changes in management or loss of key personnel; unforeseen problems associated with international sales and operations, including gains and losses from foreign currency exchange; product liability lawsuits brought against us or our customers; implementation of or changes in laws, regulations or policies that could negatively affect the orthopedic device market; and other uncertainties and factors discussed elsewhere in this Quarterly Report on Form 10-Q and in the Corporation s other filings with the Securities and Exchange Commission.

Forward-looking statements relate only to events as of the date on which the statements are made. Except as required by law, the Corporation s undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events, even if new information becomes available in the future.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

There have been no material changes from the information provided in the Company s Annual Report on Form 10-K for the year ended January 1, 2005.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

The Corporation s chief executive officer and chief financial officer, after evaluating the effectiveness of the Corporation s disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934), have concluded that, as of the end of the fiscal quarter covered by this report on Form 10-Q, the Corporation s disclosure controls and procedures were adequate and designed to ensure that material information relating to the Corporation and its consolidated subsidiaries would be made known to them by others within those entities.

(b) Changes in internal control over financial reporting.

There was no change in the Corporation s internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) 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, the Corporation s internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time the Corporation is involved in various disputes and litigation matters that arise in the ordinary course of business. While litigation is subject to uncertainties and the outcome of litigated matters is not predictable with assurance, the Corporation is not aware of any legal proceedings pending or threatened against it that it expects to have a material adverse affect on its financial condition or results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On May 26, 2005, RBS Equity Corporation converted all of its warrants to purchase the Corporation s common stock into 140,112 shares of the Corporation s common stock. The issuance of the Corporation s common stock was made without registration in reliance on the exemptions provided by Section 3(a)(9) and 4(2) of the Securities Act of 1933.

ITEM 6. EXHIBITS

10.1 Amendment to Stockholders Agreement, dated as of June 6, 2005, by and among Symmetry Medical Inc., Olympus/Symmetry Holdings LLC, 3i Parallel Ventures LP, 3i UKIP II LP, Mayflower LP and Windjammer Mezzanine & Equity Fund, L.P. (incorporated by reference to Exhibit 10.8 to the Corporation s Registration Statement on Form S-1, as amended, originally filed June 27, 2005).

31.1 Rule 13a - 14(a) Certifications of Symmetry Medical Inc. s Chief Executive Officer

31.2 Rule 13a - 14(a) Certifications of Symmetry Medical Inc. s Chief Financial Officer

32.1 Section 1350 Certifications of Symmetry Medical Inc. s Chief Executive Officer

32.2 Section 1350 Certifications of Symmetry Medical Inc. s Chief Financial Officer

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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 Moore

Brian Moore,
President and Chief Executive Officer
(Principal Executive Officer)

By /s/ Fred Hite

Fred Hite,
Senior Vice President,
Chief Financial Officer and Secretary
(Principal Financial and Accounting Officer)

August 5, 2005