Symmetry Medical Inc.
Form 10-Q
November 10, 2009

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 October 3, 2009

Commission File Number: 001-32374

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

Delaware (State or other jurisdiction of incorporation or organization)	35-1996126 (I.R.S. Employer Identification No.)
3724 North State Road 15, Warsaw, Indiana (Address of principal executive offices)	46582 (Zip Code)

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

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

The number of shares outstanding of the registrant's common stock as of November 3, 2009 was 35,805,951 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 2008 on Form 10-K, as well as in other reports which we file with the Securities and Exchange Commission, to better understand the risks and uncertainties that are inherent in our business and in owning our securities. These reports are available publicly on the SEC website, www.sec.gov, and on our website, www.symmetrymedical.com .

Any forward-looking statements which we make in this report or in any of the documents that are incorporated by reference herein speak only as of the date of such statement, and we undertake no ongoing obligation to update such statements. Comparisons of results between current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

PART I FINANCIAL INFORMATION
ITEM I. FINANCIAL STATEMENTS

Symmetry Medical Inc.
Condensed Consolidated Balance Sheets
(in thousands)

	October 3, 2009 (unaudited)	January 3, 2009
Assets:		
Current Assets:		
Cash and cash equivalents	$ 16,432	$ 10,191
Accounts receivable, net	43,205	52,845
Inventories	65,697	61,111
Refundable income taxes	2,884	6,610
Deferred income taxes	5,493	3,993
Other current assets	2,710	3,154
Total current assets	136,421	137,904
Property and equipment, net	116,933	115,045
Goodwill	153,721	153,521
Intangible assets, net of accumulated amortization	43,387	45,039
Other assets	1,260	1,728
Total Assets	$ 451,722	$ 453,237
Liabilities and Shareholders' Equity:		
Current Liabilities:		
Accounts payable	$ 20,074	$ 26,929
Accrued wages and benefits	7,764	12,784
Other accrued expenses	4,808	5,186
Income tax payable	574	2,637
Deferred income taxes	115	-
Revolving line of credit	5,479	2,495
Current portion of capital lease obligations	558	1,034
Current portion of long-term debt	19,525	16,900
Total current liabilities	58,897	67,965
Deferred income taxes	23,848	18,131
Derivative valuation liability	3,458	3,771
Capital lease obligations, less current portion	2,983	3,356
Long-term debt, less current portion	81,678	107,600
Total Liabilities	170,864	200,823
Shareholders' Equity:		
Common Stock, $.0001 par value; 75,000 shares authorized; shares issued October 3, 2009—35,806; January 3, 2009—35,801	4	4

Additional paid-in capital	278,031	275,890
Accumulated deficit	(277)	(21,507)
Accumulated other comprehensive income (loss)	3,100	(1,973)
Total Shareholders' Equity	280,858	252,414
Total Liabilities and Shareholders' Equity	$ 451,722	$ 453,237

See accompanying notes to condensed consolidated financial statements.

Symmetry Medical Inc.
Condensed Consolidated Statements of Operations
(in thousands, except per share data; unaudited)

	Three Months Ended		Nine Months Ended	
	October 3, 2009	October 4, 2008	October 3, 2009	October 4, 2008
Revenue	$ 87,164	$ 112,095	$ 289,540	$ 323,744
Cost of Revenue	65,917	86,445	216,964	246,733
Gross Profit	21,247	25,650	72,576	77,011
Selling, general and administrative expenses	10,813	15,165	37,395	44,474
Operating Income	10,434	10,485	35,181	32,537
Other (income)/expense:				
Interest expense	1,666	2,683	5,050	8,300
Derivatives valuation gain	(178)	(972)	(746)	(1,041)
Other	687	3,079	379	2,581
Income before income taxes	8,259	5,695	30,498	22,697
Income tax expense	2,851	3,162	9,268	9,995
Net income	$ 5,408	$ 2,533	$ 21,230	$ 12,702
Net income per share:				
Basic	$ 0.15	$ 0.07	$ 0.60	$ 0.36
Diluted	$ 0.15	$ 0.07	$ 0.59	$ 0.36
Weighted average common shares and equivalent shares outstanding:				
Basic	35,326	35,174	35,301	35,161
Diluted	35,620	35,402	35,498	35,354

See accompanying notes to condensed consolidated financial statements.

Symmetry Medical Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands; unaudited)

	Nine Months Ended October 3, 2009	Nine Months Ended October 4, 2008
Operating activities		
Net income	$ 21,230	$ 12,702
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	14,281	14,151
Amortization	2,203	2,207
Net (gain) loss on sale of assets	139	(460)
Deferred income tax provision	4,491	(1,074)
Excess tax benefit from stock-based compensation	-	(273)
Stock-based compensation	2,035	1,743
Derivative valuation gain	(746)	(895)
Foreign currency transaction losses	204	4,483
Change in operating assets and liabilities:		
Accounts receivable	11,109	(18,035)
Other assets	1,419	(480)
Inventories	(3,434)	(11,906)
Current income taxes	1,715	4,448
Accounts payable	(8,511)	690
Accrued expenses and other	(6,197)	(2,355)
Net cash provided by operating activities	39,938	4,946
Investing activities		
Purchases of property and equipment	(13,453)	(16,813)
Proceeds from the sale of fixed assets	67	1,215
Acquisitions, net of cash received	-	(46,546)
Net cash used in investing activities	(13,386)	(62,144)
Financing activities		
Proceeds from bank revolver	76,005	89,049
Payments on bank revolver	(83,943)	(73,226)
Issuance of long-term debt	-	60,000
Payments on long-term debt and capital lease obligations	(13,586)	(12,923)
Proceeds from the issuance of common stock	106	355
Excess tax benefit from stock-based compensation	-	273
Net cash provided by (used in) financing activities	(21,418)	63,528
Effect of exchange rate changes on cash	1,107	(628)
Net increase in cash and cash equivalents	6,241	5,702
Cash and cash equivalents at beginning of period	10,191	12,089
Cash and cash equivalents at end of period	$ 16,432	$ 17,791
Supplemental disclosures:		
Cash paid for interest	$ 5,475	$ 8,730
Cash paid for income taxes	$ 3,022	$ 6,354
Assets acquired under capital leases	$ -	$ 639

See accompanying notes to condensed consolidated financial statements.

Symmetry Medical Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
(In Thousands, Except Per Share Data)

1. Basis of Presentation

The condensed consolidated financial statements include the accounts of Symmetry Medical Inc. and its wholly-owned subsidiaries (collectively referred to as the Corporation), Symmetry Medical USA Inc., Jet Engineering, Inc., Ultrexx, Inc., Riley Medical Inc., Symmetry Medical Switzerland SA (formerly known as Riley Medical Europe, SA), Symmetry Medical Everest LLC, Everest Metal International Limited, Symmetry Medical Cheltenham Limited, Symmetry Medical PolyVac, SAS, Thornton Precision Components Limited, Symmetry Medical Malaysia SDN, Clamonta Limited, Specialty Surgical Instrumentation, Inc., UCA, LLC, TNCO, Inc. and Symmetry Medical New Bedford, LLC. The Corporation is a global supplier of integrated products consisting primarily of surgical implants, instruments and cases to orthopedic and other medical device companies.

The condensed consolidated financial statements of the Corporation have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments of a normal recurring nature considered necessary to present fairly the consolidated financial position of the Corporation, its results of operations and cash flows. The Corporation’s results are subject to seasonal fluctuations. Interim results are not necessarily indicative of results for a full year. The condensed consolidated financial statements included herein should be read in conjunction with the fiscal year 2008 consolidated financial statements and the notes thereto included in the Corporation’s Annual Report on Form 10-K for fiscal year 2008.

The Corporation’s fiscal year is the 52 or 53 week period ending on the Saturday closest to December 31. Fiscal year 2009 is a 52 week year ending January 2, 2010. The Corporation’s interim quarters for 2009 are 13 weeks long and quarter-end dates have been set as April 4, 2009, July 4, 2009 and October 3, 2009. Fiscal year 2008 was a 53 week year (ending January 3, 2009). The Corporation’s first two interim quarters for 2008 were 13 weeks long ending the Saturday closest to March 31 and June 30 and the third quarter was 14 weeks long, ending Saturday, October 4, 2008. References in these condensed consolidated financial statements to the three months ended refer to these financial periods, respectively.

2. Inventories

Inventories consist of the following:

	October 3, 2009 (unaudited)	January 3, 2009
Raw material and supplies	$ 15,733	$ 12,502
Work-in-process	29,775	31,420
Finished goods	20,189	17,189
	$ 65,697	$ 61,111

3. Property and Equipment

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

	October 3, 2009 (unaudited)	January 3, 2009
Land	$ 6,863	$ 6,473
Buildings and improvements (20 to 40 years)	41,817	40,183
Machinery and equipment (5 to 15 years)	134,399	127,716
Office equipment (3 to 5 years)	12,561	10,859
Construction-in-progress	7,596	4,227
	203,236	189,458
Less accumulated depreciation	(86,303)	(74,413)
	$ 116,933	$ 115,045

4. Intangible Assets

Intangible assets were acquired in connection with our business acquisitions. As of October 3, 2009, the balances of intangible assets, other than goodwill, were as follows:

	Weighted-average Amortization Period (unaudited)	Gross Intangible Assets (unaudited)	Accumulated Amortization (unaudited)	Net Intangible Assets (unaudited)
Acquired technology and patents	10 years	$ 2,333	$ (943)	$ 1,390
Acquired customers	18 years	42,554	(8,522)	34,032
Non-compete agreements	5 years	686	(351)	335
Intangible assets subject to amortization	17 years	45,573	(9,816)	35,757
Proprietary processes	Indefinite			3,553
Trademarks	Indefinite			4,077
Indefinite-lived intangible assets, other than goodwill				7,630
Total				$ 43,387

As of January 3, 2009, the balances of intangible assets, other than goodwill, were as follows:

	Weighted-average Amortization Period	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Acquired technology and patents	10 years	$ 2,295	$ (713)	$ 1,582
Acquired customers	18 years	42,330	(6,596)	35,734
Non-compete agreements	5 years	559	(243)	316
Intangible assets subject to amortization	17 years	45,184	(7,552)	37,632
Proprietary processes	Indefinite			3,428
Trademarks	Indefinite			3,979
Indefinite-lived intangible assets, other than goodwill				7,407
Total				$ 45,039

5. New Accounting Pronouncements

Business Combinations. The Corporation adopted the provisions of the FASB Statement on Business Combinations on January 4, 2009. This Statement amends the previously issued Statement on Business Combinations and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any non-controlling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The adoption of the Statement had an immaterial impact on the Corporation’s financial position and results of operations.

Disclosures about Derivative Instruments and Hedging Activities. The Corporation adopted the provisions of the FASB Statement on disclosures relating to derivative instruments and hedging on January 4, 2009. This Statement requires entities to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted, and how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. The adoption of this Statement had no impact on the Corporation's financial position or results of operations. These disclosures are included in Note 11.

Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities. The Corporation adopted the provisions of the FASB Staff Position (FSP) relating to determining whether instruments granted in share-based payment transactions are participating securities on January 4, 2009, with retrospective application. This FSP was issued to clarify that unvested share-based payment awards with a right to receive non-forfeitable dividends are participating securities. This FSP also provides guidance on how to allocate earnings to participating securities and compute basic earnings per share (EPS) using the two-class method. The adoption of this standard did not have a material impact on our results of operations.

5. New Accounting Pronouncements (Continued)

Subsequent Events. On July 4, 2009, the Corporation adopted the provisions of the FASB Statement on subsequent events providing additional disclosure requirements for material events occurring subsequent to the balance sheet date and prior to the issuance of the financial statements. This Statement also modifies the definition of subsequent events and defines the two types of subsequent events as recognized and non-recognized. The Corporation issued its financial statements by filing with the Securities Exchange Commission on November 9, 2009, for the quarter ended October 3, 2009. The Corporation evaluated subsequent events up through the time of the filing.

Accounting Standards Codification. On October 3, 2009, the Corporation adopted provisions of the FASB Statement on accounting standards codification. The Statement establishes the Codification as the single official source of authoritative United States accounting and reporting standards for all non-governmental entities (other than guidance issued by the Securities Exchange Commission (the "SEC")) and changes the referencing and organization on financial standards. As Codification is not intended to change the existing accounting guidance, its adoption has not had an impact on the Corporation's financial position, results of operations or cash flows.

6. Segment Reporting

The Corporation primarily designs, develops and manufactures implants and related surgical instruments and cases for orthopedic device companies and companies in other medical device markets such as dental, osteobiologic and endoscopy. The Corporation also 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 have not been disclosed separately as it does not meet the quantitative disclosure requirements.

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

Revenue from External Customers:

	Three Months Ended		Nine Months Ended	
	October 3, 2009	October 4, 2008	October 3, 2009	October 4, 2008
	(unaudited)		(unaudited)	
United States	$ 63,207	$ 81,208	$ 214,527	$ 226,388
United Kingdom	7,313	14,330	22,674	45,633
Ireland	9,234	7,597	28,532	24,569
Other foreign countries	7,410	8,960	23,807	27,154
Total net revenues	$ 87,164	$ 112,095	$ 289,540	$ 323,744

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 October 3, 2009 – Two customers represented approximately 36.2% and 10.1% of revenue, respectively.

Nine months ended October 3, 2009 – One customer represented approximately 40.0% of revenue.

Three months ended October 4, 2008 – Two customers represented approximately 31.7% and 12.6% of revenue, respectively.

Nine months ended October 4, 2008 – Two customers represented approximately 32.1% and 11.3% of revenue, respectively.

6. Segment Reporting (Continued)

Revenue by Product Category:

Following is a summary of the composition by product category of the Corporation's revenue to external customers. Revenues from aerospace products are included in the "other" category.

	Three Months Ended		Nine Months Ended	
	October 3, 2009	October 4, 2008	October 3, 2009	October 4, 2008
	(unaudited)		(unaudited)	
Instruments	$ 41,327	$ 48,687	$ 134,679	$ 133,075
Implants	24,237	31,558	83,255	92,992
Cases	16,353	22,971	53,725	67,916
Other	5,247	8,879	17,881	29,761
Total net revenues	$ 87,164	$ 112,095	$ 289,540	$ 323,744

7. Net Income Per Share

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

	Three Months Ended		Nine Months Ended	
	October 3, 2009	October 4, 2008	October 3, 2009	October 4, 2008
	(unaudited)		(unaudited)	
Numerator:				
Net income	$ 5,408	$ 2,553	$ 21,230	$ 12,702
Denominator:				
Weighted-average shares outstanding:				
Basic	35,326	35,174	35,301	35,161
Effect of dilutive stock options, restricted stock and stock warrants	294	228	197	193
Diluted	35,620	35,402	35,498	35,354
Net income per share:				
Basic	$ 0.15	$ 0.07	$ 0.60	$ 0.36
Diluted	$ 0.15	$ 0.07	$ 0.59	$ 0.36

The diluted weighted average share calculations do not include performance based restricted stock awarded July 1, 2009, totaling 119,925 shares because the measurement period is not complete.

8. Commitments and Contingencies

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

Unconditional Purchase Obligations. The Corporation has contracts to purchase minimum quantities of plastic, cobalt chrome and titanium through December 2011. Based on contractual pricing at October 3, 2009, the minimum purchase obligations totaled $34,141. Purchases under 2009 contracts totaled approximately $13,936 as of October 3, 2009. These purchases are not in excess of our forecasted requirements.

8. Commitments and Contingencies (Continued)

Other. Following the discovery of certain accounting irregularities at our Sheffield, UK operating unit (as further described in this Form 10-Q at Part II, Item 1), the Audit Committee self-reported the matter to the staff of the Securities and Exchange Commission (SEC) 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.

9. Comprehensive Income

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

	Three Months Ended		Nine Months Ended	
	October 3, 2009	October 4, 2008	October 3, 2009	October 4, 2008
	(unaudited)		(unaudited)	
Net Income	$ 5,408	$ 2,533	$ 21,230	$ 12,702
Foreign currency translation adjustments	320	$ (5,644)	5,338	$ (3,164)
Derivative, net of tax benefit (1)	(160)	-	(260)	-
Comprehensive income (loss)	$ 5,568	$ (3,111)	$ 26,308	$ 9,538

(1) Derivative losses are reported net of income tax benefits of $106 and $173 for the three and nine month periods ended October 3, 2009, respectively.

10. Acquisition

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

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

The aggregate purchase price was allocated to the opening balance sheet as follows:

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

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 loss, a component of shareholders' equity in the condensed consolidated balance sheets, until the underlying transaction hedged is recognized in the 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 consolidated statements of operations upon payment of interest.

11. Derivatives (Continued)

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 ($433) at October 3, 2009, is designated as a cash flow hedge of the future payment of variable rate interest with three-month LIBOR fixed at 1.34% per annum in 2009, 2010 and 2011, respectively.

In 2006, the Corporation entered into a forward swap contract to manage interest rate risk related to a portion of its then existing variable rate senior secured first lien term loan. This swap contract, which had a fair value of ($3,025) at October 3, 2009, was not designated as a cash flow hedge of the future variable rate payment of interest. The entire change in the fair value of this interest rate swap is recorded to derivative valuation gain in the condensed consolidated statements of operations. For the nine months ended October 3, 2009 and October 4, 2008, the Corporation recorded a gain of $746 and a loss of $371, respectively.

12. Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, accounts receivable, and long-term debt, including interest-rate swap agreements. The carrying value of these financial instruments approximates fair value.

As of October 3, 2009 and January 3, 2009, the Corporation held interest rate derivative instruments that are required to be measured at fair value on a recurring basis. 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 October 3, 2009 and January 3, 2009 for assets and liabilities measured at fair value on a recurring basis.

	October 3, 2009 Fair Value Measurements				January 3, 2009 Fair Value Measurements			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities								
Interest rate swaps	$ -	$ (3,458)	$ -	$ (3,458)	$ -	$ (3,771)	$ -	$ (3,771)
	$ -	$ (3,458)	$ -	$ (3,458)	$ -	$ (3,771)	$ -	$ (3,771)

13. Income Taxes

The provision for income taxes differs from that computed at the Federal statutory rate of 34% and 35% in 2009 and 2008, respectively, as follows:

	Quarter Ended		Nine Months Ended	
	October 3, 2009	October 4, 2008	October 3, 2009	October 4,