Synergetics Reports Third Quarter of Fiscal 2012 Results

The Associated Press

(http://www.synergeticsusa.com)

Synergetics USA, Inc. (NASDAQ: SURG), a medical device company that designs, manufactures, and markets innovative surgical devices for ophthalmic and neurosurgical applications, today announced results for the third quarter ended April 30, 2012.

Details about the quarter include:

"While our third quarter revenue performance was below our expectations, we are encouraged by the solid start to our fourth quarter driven by improving trends in our disposables business, particularly VersaPACK?, and early order trends from our OEM partners," said David M. Hable, the Company's President and Chief Executive Officer. "The economic difficulties in Europe which depressed demand for our ophthalmic disposables this quarter are unlikely to abate in the short term and we are taking proactive measures to stabilize performance in the region while also developing opportunities in the emerging markets of Brazil, Russia and India. We are very pleased to report the recent submission of our 510k premarket notification to the FDA for VersaVIT? and anticipate strong growth in fiscal year 2013 upon FDA clearance and our subsequent commercialization of this innovative, portable vitrectomy machine."

Third Quarter Results

Third quarter of fiscal 2012 sales totaled $14.6 million, a decline of 0.7% compared to sales of $14.7 million in the third quarter of fiscal 2011. Total sales increased 0.6% year-over-year on a constant currency basis which excludes the unfavorable impact of foreign currency translation of approximately $191,000 in the period. Third quarter sales performance was driven by 17.0% growth in OEM sales through our marketing partners offset by an 8.8% decline in Ophthalmic sales, all of which was outside of the U.S. OEM growth, albeit strong, was nonetheless diminished by approximately $600,000 in orders that slipped from the third quarter. OEM sales in the quarter include $322,000 of deferred revenues compared to $292,000 in the prior year third quarter. In addition to the unfavorable foreign currency, the weak economy in Europe coupled with increased competitive activity depressed Ophthalmic growth in the quarter.

Gross profit for the third quarter of fiscal 2012 totaled $7.8 million, or 53.7% of sales, compared with $8.6 million, or 58.6% of sales, in the third quarter of fiscal 2011. Third quarter gross margin included the impact of an inventory write-down of $367,000. Year-over-year gross margin performance was also negatively impacted by the foreign currency translation and product mix shift versus the prior year period.

Total operating expenses increased to $6.4 million, or 44.0% of sales, in the third quarter from $6.1 million, or 41.4% of sales, in the comparable period largely due to additional stock compensation

included in general and administrative expenses. Operating income for the third quarter of fiscal 2012 declined to $1.4 million compared with $2.5 million last year. Adjusted operating income for the third quarter of fiscal 2012, which excludes the impact of the aforementioned inventory write-down, was $1.8 million representing an adjusted operating margin of 12.2% this quarter versus 17.2% for the comparable 2011 period last year. Operating income performance was negatively impacted by the higher cost of goods sold on lower than expected sales and growth in operating expense.

Income from continuing operations was $1.0 million, or $0.04 per diluted share, as compared to $1.7 million, or $0.07 per diluted share, for the same period of fiscal 2011. Reported income from continuing operations per diluted share includes approximately $0.01 related to an inventory write-down in the period. Earnings before interest, taxes, depreciation and amortization, or EBITDA, totaled $1.9 million in the third quarter of fiscal 2012 as compared to EBITDA of $2.9 million in the prior year third quarter.

Refer to the tables at the end of this release for a reconciliation of GAAP net income to EBITDA, sales on a constant currency basis, GAAP operating income to adjusted operating income and GAAP EPS to adjusted non-GAAP EPS and the "Use of Non-GAAP Financial Information" section below.

Nine Months Results and Balance Sheet

Total sales for the first nine months of fiscal 2012 increased 7.8% to $43.2 million compared with $40.0 million in the same period last

year. Income from continuing operations for the first nine months of fiscal 2012 increased 11.1% to $4.0 million, or $0.16 per diluted share, versus $3.6 million, or $0.14 per diluted share, in the first nine months of fiscal 2011. In addition, there was a net of loss from discontinued operations of $382,000, or $0.02 per diluted share, related to the completion of the sale of assets from our plastic injection molding business in the nine-month fiscal 2012 period. Net income for the first nine months remained flat at $3.6 million, or $0.14 per diluted share.

As of April 30, 2012, the Company had approximately $12.8 million in cash on its balance sheet and no debt compared with $18.4 million in cash and $1.1 million in debt at the end of fiscal 2011. The reduction in cash over this period was primarily due to a tax payment of $6.0 million related to the Alcon supply agreement and settlement proceeds paid during the first nine months of fiscal 2012 in addition to the continued use of cash to retire debt obligations.

Conference Call Information

Synergetics USA, Inc. will host a conference call on Tuesday, June 12, 2012, at 10:30 a.m. Eastern Time to discuss third quarter and nine-month results and other recent developments, and to review its growth strategy. The toll free dial-in number to participate live on this call is (800) 588-4973, confirmation code 32444087. For callers outside the U.S., the number is (847) 230-5643. The conference call will also be available live via webcast on the investor relations

section of the Company's website

www.synergeticsusa.com(http://www.synergeticsusa.com/). A replay will

be available on the Company's website for approximately 30 days.

About Synergetics USA, Inc.

Through continuous improvement and development of our people, our

mission is to design, manufacture and market innovative surgical

devices, capital equipment, accessories and disposables of the highest

quality in order to assist and enable surgeons who perform surgery

around the world to provide a better quality of life for their

patients.

Synergetics USA, Inc. (the "Company") is a leading supplier of

precision surgical devices. The Company's primary focus is on the

disciplines of ophthalmology and neurosurgery. Our distribution

channels include a combination of direct and independent sales

distribution organizations and important strategic alliances with

market leaders. The Company's product lines focus upon precision

engineered, disposable and reusable devices, procedural kits and the

delivery of various energy modalities for the performance of less

invasive surgery including: (i) laser energy, (ii) ultrasonic energy,

(iii) radio frequency energy for electrosurgery and lesion generation

and (iv) visible light energy for illumination, and where applicable,

simultaneous infusion (irrigation) of fluids into the operative field.

The Company's website address is

http://www.synergeticsusa.com(http://www.synergeticsusa.com/).

Use of Non-GAAP Financial Information

In addition to results reported in accordance with GAAP, the Company provides sales on a constant currency basis, adjusted operating income and margin, EBITDA and adjusted earnings per diluted share. These adjusted amounts consist of GAAP amounts excluding inventory write-down and disposition charges to the extent occurring during the period. Sales on a constant currency basis is calculated as sales plus the foreign currency adjustment. Adjusted operating income and margin is calculated as operating income plus the book to physical loss divided by sales. EBITDA is defined as income from continuing operations before interest expense, income taxes, depreciation and amortization. Adjusted earnings per diluted share were calculated by dividing adjusted net income for diluted earnings per share by diluted weighted average shares outstanding.

The Company measures its performance primarily through its operating profit. In addition to its consolidated financial statements presented in accordance with GAAP, management uses certain non-GAAP measures, including sales on a constant currency basis, adjusted operating income and margin, EBITDA and adjusted earnings per diluted share, to measure our operating performance.

These non-GAAP measures are presented to enhance an understanding of the Company's operating results and are not intended to represent cash flow or results of operations. The use of these non-GAAP measures provides an indication of the Company's ability to service debt and measure operating performance. Management believes these non-GAAP

measures are useful in evaluating the Company's operating performance compared to other companies in its industry and beneficial to investors, potential investors and other key stakeholders, including creditors, who use this measure in their evaluation of the Company's performance.

EBITDA does have certain material limitations primarily due to the exclusion of certain amounts that are material to the Company's results of operations, such as interest expense, income tax expense, depreciation and amortization. Due to these limitations, EBITDA should not be considered a measure of discretionary cash available to the Company to invest in its business and should be utilized in conjunction with other information contained in the Company's unaudited condensed consolidated financial statements prepared in accordance with GAAP.

Forward-Looking Statements

Some statements in this release may be "forward-looking statements" for the purposes of the Private Securities Litigation Reform Act of 1995. In some cases forward-looking statements can be identified by words such as "believe," "expect," "anticipate," "plan," "potential," "continue" or similar expressions. Such forward-looking statements include risks and uncertainties, and there are important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These factors, risks and uncertainties are discussed in the Company's Annual Report on Form 10-K for the year ended July 31, 2011, as updated from time to time in

our filings with the Securities and Exchange Commission. The Company

is not responsible for updating the information contained in this

press release beyond the published date, or for changes made to this

document by wire services or Internet services.

Synergetics USA, Inc. and Subsidiaries

Condensed Consolidated Statements of Income

Three and Nine Months Ended April 30, 2012, and 2011

(Dollars in thousands, except share and per share data)

Three Months Ended Nine Months Ended

April 30, April 30, April 30, April 30,

2012 2011 2012 2011

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Net sales $ 14,568 $ 14,670 $ 43,154 $ 40,024

Cost of sales 6,746 6,074 18,444 16,679

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Gross profit 7,822 8,596 24,710 23,345

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Operating expenses

Research and

development 921 882 2,634 2,587

Sales and marketing 2,868 2,771 8,851 8,528

General and

administrative 2,628 2,427 7,690 6,854

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6,417 6,080 19,175 17,969

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Operating income 1,405 2,516 5,535 5,376

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Other income (expenses)

Investment income 9 22 32 82

Interest expense (10) (37) (43) (182)

Gain (loss) on sale

of product line -- -- -- (99)

Miscellaneous (2) -- (8) (11)

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(3) (15) (19) (210)

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Income from

continuing

operations

before

provision for

income taxes 1,402 2,501 5,516 5,166

Provision for income

taxes 396 825 1,490 1,544

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Income from

continuing

operations $ 1,006 $ 1,676 $ 4,026 $ 3,622

(Income) loss from

discontinued

operations, net of

income tax benefit

(provision) of $193

and $16,

respectively -- 33 382 26

Net income $ 1,006 $ 1,643 $ 3,644 $ 3,596

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Earnings per share:

Basic

Income from

continuing

operations $ 0.04 $ 0.07 $ 0.16 $ 0.14

Loss from

discontinued

operations $ 0.00 $ 0.00 $ (0.02) $ 0.00

Net income $ 0.04 $ 0.07 $ 0.14 $ 0.14

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Diluted

Income from

continuing

operations $ 0.04 $ 0.07 $ 0.16 $ 0.14

Loss from

discontinued

operations $ 0.00 $ 0.00 $ (0.02) $ 0.00

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Net income $ 0.04 $ 0.07 $ 0.14 $ 0.14

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Basic weighted average

common shares

outstanding 25,184,447 24,945,707 25,080,096 24,878,768

Diluted weighted average

common shares

outstanding 25,363,620 25,108,582 25,249,504 25,004,258

SYNERGETICS USA, INC. AND SUBSIDIARIES

Unaudited Table of Net Income and EBITDA

Three and Nine Months Ended April 30, 2012 and April 30, 2011

(Dollars in thousands, except per share information)

Three Months Ended Nine Months Ended

April 30, April 30, April 30, April 30,

2012 2011 2012 2011

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EBITDA Reconciliation

GAAP net income from continuing

operations $ 1,006 $ 1,676 $ 4,026 $ 3,622

Interest expense, net 10 37 43 182

Provision for income taxes 396 825 1,490 1,544

Depreciation expense 325 230 895 739

Amortization expense 161 147 485 490

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EBITDA $ 1,898 $ 2,915 $ 6,939 $ 6,577

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SYNERGETICS USA, INC. AND SUBSIDIARIES

Unaudited Table of Sales - Constant Currency, Adjusted Operating Income and

Non-GAAP EPS

Three and Nine Months Ended April 30, 2012 and April 30, 2011

(Dollars in thousands, except per share information)

Three Months Ended Nine Months Ended

April 30, April 30, April 30, April 30,

2012 2011 2012 2011

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Sales -- Constant

Currency basis

GAAP Sales $ 14,568 $ 14,670 $ 43,154 $ 40,024

Foreign currency

adjustment 191 1 (246) 3

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Sales - Constant

currency basis $ 14,759 $ 14,671 $ 42,908 $ 40,027

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Adjusted Operating

Income

GAAP operating income $ 1,405 $ 2,516 $ 5,535 $ 5,376

Inventory write-down 367 -- 367 --

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Adjusted operating

income $ 1,772 $ 2,516 $ 5,902 $ 5,376

Net sales $ 14,568 $ 14,670 $ 43,154 $ 40,024

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Adjusted operating

margin 12.2% 17.2% 13.7% 13.4%

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Adjusted Non-GAAP EPS

Inventory write-down $ 367 -- $ 367 --

Effective tax rate 28.2% -- 27.0 --

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Tax effected write-

down $ 263 -- $ 268 --

Diluted weighted

average common

shares outstanding 25,363,620 25,108,582 25,249,504 25,004,258

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Diluted earnings per

share $ 0.01 -- $ 0.01 --

GAAP diluted

earnings per share $ 0.04 $ 0.07 $ 0.14 $ 0.14

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Total Adjusted Non-

GAAP EPS $ 0.05 $ 0.07 $ 0.15 $ 0.14

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Synergetics USA, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

As of April 30, 2012 (Unaudited) and July 31, 2011

(Dollars in thousands, except share data)

April 30, July 31,

2012 2011

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Assets

Current Assets

Cash and cash equivalents $ 12,838 $ 18,399

Accounts receivable, net of allowance for doubtful

accounts of $272 and $282, respectively 10,593 11,148

Inventories 14,878 12,082

Income taxes refundable 378 ---

Prepaid expenses 1,117 961

Deferred income taxes 1,078 792

Assets held for sale --- 868

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Total current assets 40,882 44,250

Property and equipment, net 9,215 8,561

Intangible and other assets

Goodwill 10,661 10,660

Other intangible assets, net 11,406 11,792

Deferred income taxes 4,308 4,915

Patents, net 1,152 1,050

Cash value of life insurance 82 82

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Total assets $ 77,706 $ 81,310

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Liabilities and stockholders' equity

Current Liabilities

Current maturities of long-term debt $ -- $ 1,053

Accounts payable 2,705 1,567

Accrued expenses 2,623 3,193

Income taxes payable -- 6,233

Deferred revenue 1,288 540

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Total current liabilities 6,616 12,586

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Long-Term Liabilities

Deferred revenue 16,139 18,060

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Total long-term liabilities 16,139 18,060

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Total liabilities 22,755 30,646

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Commitments and contingencies

Stockholders' Equity

Common stock at April 30, 2012 and July 31, 2011,

$0.001 par value, 50,000,000 shares authorized;

25,195,434 and 24,970,884 shares issued and

outstanding, respectively 25 25

Additional paid-in capital 26,202 25,598

Retained earnings 28,597 24,952

Accumulated other comprehensive income:

Foreign currency translation adjustment 127 89

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Total stockholders' equity 54,951 50,664

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Total liabilities and stockholders' equity $ 77,706 $ 81,310

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Synergetics USA Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

Nine Months Ended April 30, 2012 and 2011

(Dollars in thousands, except share data)

Nine Nine

Months Months

Ended Ended

April 30, April 30,

2012 2011

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Cash Flows from Operating Activities

Net income $ 3,644 $ 3,596

Plus: Loss from discontinued operations - net of

tax 382 26

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Income from continuing operations 4,026 3,622

Adjustments to reconcile net income to net cash

provided by operating activities

Depreciation 895 739

Amortization 485 490

Provision for doubtful accounts receivable 41 15

Stock-based compensation 545 252

Deferred income taxes 321 (134)

Loss of sale of product line --- 99

Gain on sale of equipment --- 50

Changes in assets and liabilities

(Increase) decrease in:

Accounts receivable 492 (275)

Inventories (2,843) (1,337)

Prepaid expenses (177) (337)

Income taxes refundable (378) --

(Decrease) increase in:

Accounts payable 1,165 (122)

Accrued expenses (415) (458)

Deferred revenue (1,173) 32

Income taxes payable (6,039) 29

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Net cash (used in) provided by continuing

operating activities (3,055) 2,665

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Net cash used in discontinued operations 59 (91)

Net cash (used in) provided by operating

activities (2,996) 2,574

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Cash Flows from Investing Activities

Proceeds from sale of equipment --- 11

Purchase of property and equipment (1,586) (1,162)

Acquisition of patents and other intangibles (201) (231)

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Net cash used in continuing investing

activities (1,787) (1,382)

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Net cash used in discontinued operations -- (363)

Net cash used in investing activities (1,787) (1,745)

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Cash Flows from Financing Activities

Principal payments on revenue bonds payable --- (1,728)

Payment on debt incurred for acquisition of

trademark (313) (445)

Principal payment on long-term debt (740) (686)

Tax benefit associated with the exercise of non-

qualified stock options 24 125

Proceeds from the issuance of common stock 35 211

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Net cash used in financing activities (994) (2,523)

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Foreign exchange rate effect on cash and cash

equivalents 216 16

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Net decrease in cash and cash equivalents (5,561) (1,678)

Cash and cash equivalents

Beginning 18,399 18,669

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Ending $ 12,838 $ 16,991

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