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# U.S. 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 March 29, 2013**

**Commission File Number 1-16137**

# GREATBATCH, INC.

**(Exact name of Registrant as specified in its charter)**

**Delaware**

**(State of incorporation)**

**16-1531026**

**(I.R.S. employer identification no.)**

**2595 Dallas Parkway**

**Suite 310**

**Frisco, TX 75034**

**(Address of principal executive offices)**

**(716) 759-5600**

**(Registrant s telephone number, including area code)**

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

Indicate by checkmark 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 large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer | ¨ | Accelerated filer | x |
| Non-accelerated filer | ¨ | Smaller reporting company | ¨ |

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

The number of shares outstanding of the Company s common stock, $0.001 par value per share, as of May 7, 2013 was: 23,901,341 shares.

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**Greatbatch, Inc.**

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**As of and for the Quarterly Period Ended March 29, 2013**

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**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**GREATBATCH, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS - Unaudited**

**(in thousands except share and per share data)**

| | As of | |
|---|---|---|
| | March 29, 2013 | December 28, 2012 |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 10,144 | $ 20,284 |
| Accounts receivable, net of allowance for doubtful accounts of $2.1 million in 2013 and $2.4 million in 2012 | 124,566 | 120,923 |
| Inventories | 118,179 | 106,612 |
| Deferred income taxes | 7,535 | 7,678 |
| Prepaid expenses and other current assets | 11,322 | 12,636 |
| Total current assets | 271,746 | 268,133 |
| Property, plant and equipment, net | 150,532 | 150,893 |
| Amortizing intangible assets, net | 83,217 | 87,345 |
| Indefinite-lived intangible assets | 20,828 | 20,828 |
| Goodwill | 344,671 | 349,035 |
| Deferred income taxes | 2,473 | 2,534 |
| Other assets | 11,455 | 11,107 |
| Total assets | $ 884,922 | $ 889,875 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 43,223 | $ 45,274 |
| Income taxes payable | 30,324 | 94 |
| Deferred income taxes | 840 | 874 |
| Accrued expenses | 28,178 | 45,515 |
| Total current liabilities | 102,565 | 91,757 |
| Long-term debt | 233,000 | 225,414 |
| Deferred income taxes | 53,257 | 82,462 |
| Other long-term liabilities | 6,724 | 9,382 |
| Total liabilities | 395,546 | 409,015 |
| Stockholders equity: | | |
| Preferred stock, $0.001 par value, authorized 100,000,000 shares; no shares issued or outstanding in 2013 or 2012 | | |
| Common stock, $0.001 par value, authorized 100,000,000 shares; 23,921,507 shares issued and 23,899,502 outstanding in 2013 23,731,570 shares issued and 23,711,838 outstanding in 2012 | 24 | 24 |
| Additional paid-in capital | 325,809 | 320,618 |
| Treasury stock, at cost, 22,005 shares in 2013 and 19,732 shares in 2012 | (593) | (452) |
| Retained earnings | 153,386 | 147,723 |
| Accumulated other comprehensive income | 10,750 | 12,947 |

| | | |
|---|---|---|
| Total stockholders equity | 489,376 | 480,860 |
| Total liabilities and stockholders equity | $ 884,922 | $ 889,875 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**GREATBATCH, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**AND COMPREHENSIVE INCOME - Unaudited**

**(in thousands except per share data)**

| | Three Months Ended | |
|---|---|---|
| | March 29, 2013 | March 30, 2012 |
| Sales | $ 148,265 | $ 159,103 |
| Cost of sales | 99,516 | 112,215 |
| Gross profit | 48,749 | 46,888 |
| Operating expenses: | | |
| Selling, general and administrative expenses | 20,092 | 19,034 |
| Research, development and engineering costs, net | 11,080 | 13,911 |
| Other operating expense, net | 3,238 | 2,745 |
| Total operating expenses | 34,410 | 35,690 |
| Operating income | 14,339 | 11,198 |
| Interest expense | 6,988 | 4,359 |
| Other expense, net | 285 | 720 |
| Income before provision for income taxes | 7,066 | 6,119 |
| Provision for income taxes | 1,403 | 1,652 |
| Net income | $ 5,663 | $ 4,467 |
| Earnings per share: | | |
| Basic | $ 0.24 | $ 0.19 |
| Diluted | $ 0.23 | $ 0.19 |
| Weighted average shares outstanding: | | |
| Basic | 23,750 | 23,420 |
| Diluted | 24,415 | 23,848 |
| Comprehensive income: | | |
| Net income | $ 5,663 | $ 4,467 |
| Other comprehensive income (loss): | | |
| Foreign currency translation gain (loss) | (3,063) | 4,038 |
| Net change in cash flow hedges, net of tax | 269 | 525 |
| Defined benefit plan liability adjustment, net of tax | 597 | |
| Other comprehensive income (loss) | (2,197) | 4,563 |
| Comprehensive income | $ 3,466 | $ 9,030 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**GREATBATCH, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - Unaudited**

**(in thousands)**

| | Three Months Ended March 29, 2013 | March 30, 2012 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 5,663 | $ 4,467 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 8,764 | 11,119 |
| Debt related amortization included in interest expense | 5,759 | 2,956 |
| Stock-based compensation | 2,431 | 2,187 |
| Other non-cash (gains) losses | (930) | 165 |
| Deferred income taxes | (29,212) | 123 |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Accounts receivable | (3,897) | (13,605) |
| Inventories | (12,073) | (1,910) |
| Prepaid expenses and other current assets | 80 | 848 |
| Accounts payable | (512) | 4,958 |
| Accrued expenses | (13,920) | (12,734) |
| Income taxes payable | 30,252 | 1,016 |
| Net cash used in operating activities | (7,595) | (410) |
| **Cash flows from investing activities:** | | |
| Acquisition of property, plant and equipment | (6,745) | (9,836) |
| Proceeds from sale of orthopaedic product lines (Note 9) | 1,768 | |
| Purchase of equity method investments | (810) | |
| Acquisitions, net of cash acquired | | (17,224) |
| Other investing activities | 8 | 38 |
| Net cash used in investing activities | (5,779) | (27,022) |
| **Cash flows from financing activities:** | | |
| Principal payments of long-term debt | (205,782) | (10,000) |
| Proceeds from issuance of long-term debt | 208,000 | 10,000 |
| Issuance of common stock | 1,185 | 223 |
| Other financing activities | (81) | (118) |
| Net cash provided by financing activities | 3,322 | 105 |
| Effect of foreign currency exchange rates on cash and cash equivalents | (88) | 353 |
| Net decrease in cash and cash equivalents | (10,140) | (26,974) |
| Cash and cash equivalents, beginning of period | 20,284 | 36,508 |
| Cash and cash equivalents, end of period | $ 10,144 | $ 9,534 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**GREATBATCH, INC.**

**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY - Unaudited**

**(in thousands)**

| | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Treasury Stock Shares | Treasury Stock Amount | Retained Earnings | Accumulated Other Comprehensive Income | Total Stockholders Equity |
|---|---|---|---|---|---|---|---|---|
| At December 28, 2012 | 23,732 | $ 24 | $ 320,618 | (20) | $ (452) | $ 147,723 | $ 12,947 | $ 480,860 |
| Stock-based compensation | | | 2,168 | | | | | 2,168 |
| Net shares issued under stock incentive plans | 99 | | 627 | (2) | (141) | | | 486 |
| Income tax liability from stock options, restricted stock and restricted stock units | | | (81) | | | | | (81) |
| Shares contributed to 401(k) Plan | 91 | | 2,477 | | | | | 2,477 |
| Net income | | | | | | 5,663 | | 5,663 |
| Total other comprehensive income (loss) | | | | | | | (2,197) | (2,197) |
| At March 29, 2013 | 23,922 | $ 24 | $ 325,809 | (22) | $ (593) | $ 153,386 | $ 10,750 | $ 489,376 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**GREATBATCH, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited**

## 1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information (Accounting Standards Codification ( ASC ) 270, *Interim Reporting*) and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information necessary for a full presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America ( GAAP ). Operating results for interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole. In the opinion of management, the condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results of Greatbatch, Inc. and its wholly-owned subsidiary, Greatbatch Ltd. (collectively Greatbatch or the Company ), for the periods presented. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, sales, expenses, and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ materially from these estimates. The December 28, 2012 condensed consolidated balance sheet data was derived from audited consolidated financial statements but does not include all disclosures required by GAAP. For further information, refer to the consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended December 28, 2012. The Company utilizes a fifty-two, fifty-three week fiscal year ending on the Friday nearest December 31st. The first quarter of 2013 and 2012 each contained 13 weeks, and ended on March 29, and March 30, respectively.

## 2. ACQUISITIONS

***NeuroNexus Technologies, Inc.***

On February 16, 2012, the Company purchased all of the outstanding common stock of NeuroNexus Technologies, Inc. ( NeuroNexus ) headquartered in Ann Arbor, MI. NeuroNexus is an active implantable medical device design firm specializing in developing and commercializing neural interface technology, components and systems for neuroscience and clinical markets. NeuroNexus has an extensive intellectual property portfolio, core technologies and capabilities to support the development and manufacturing of neural interface devices across a wide range of applications including neuromodulation, sensing, optical stimulation and targeted drug delivery. The aggregate purchase price of NeuroNexus was $13.2 million. Total assets acquired from NeuroNexus were $14.6 million, of which $2.9 million were amortizing intangible assets and $8.9 million was allocated to goodwill.

This transaction was accounted for under the acquisition method of accounting. Accordingly, the operating results of NeuroNexus were included in the Company s Implantable Medical segment from the date of acquisition and the purchase price was allocated to the assets acquired and liabilities assumed based on their fair values as of the close of the acquisition, with the amount exceeding the fair value of net assets acquired being recorded as goodwill. The purchase price of NeuroNexus consisted of cash payments of $11.7 million and potential future payments of up to an additional $2 million. These future payments are contingent upon the achievement of certain financial and development-based milestones and had an estimated fair value of $1.5 million as of the acquisition date. The valuation of the assets acquired and liabilities assumed from NeuroNexus was finalized during the first quarter of 2013 and did not result in a material adjustment to the original valuation of net assets acquired, including goodwill.

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**GREATBATCH, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited**

***Pro Forma Results (Unaudited)***

The following unaudited pro forma information presents the consolidated results of operations of the Company and NeuroNexus as if that acquisition occurred as of the beginning of fiscal year 2012 (in thousands, except per share amounts):

| | Three Months Ended | |
|---|---|---|
| | March 29, 2013 | March 30, 2012 |
| Sales | $ 148,265 | $ 159,543 |
| Net income | 5,663 | 4,293 |
| Earnings per share: | | |
| Basic | $ 0.24 | $ 0.18 |
| Diluted | $ 0.23 | $ 0.18 |

The unaudited pro forma information presents the combined operating results of Greatbatch and NeuroNexus, with the results prior to the acquisition date adjusted to include the pro forma impact of the amortization of acquired intangible assets based on the purchase price allocations, the adjustment to interest expense reflecting the amount borrowed in connection with the acquisition at Greatbatch s interest rate, and the impact of income taxes on the pro forma adjustments utilizing the applicable statutory tax rate. The unaudited pro forma consolidated basic and diluted earnings per share calculations are based on the consolidated basic and diluted weighted average shares of Greatbatch.

The unaudited pro forma results are presented for illustrative purposes only and do not reflect the realization of potential cost savings, and any related integration costs. Certain cost savings may result from the acquisition; however, there can be no assurance that these cost savings will be achieved. These pro forma results do not purport to be indicative of the results that would have been obtained, or to be a projection of results that may be obtained in the future.

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**GREATBATCH, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited**

## 3. SUPPLEMENTAL CASH FLOW INFORMATION

| (in thousands) | Three Months Ended March 29, 2013 | March 30, 2012 |
|---|---|---|
| Noncash investing and financing activities: | | |
| Common stock contributed to 401(k) Plan | $ 2,477 | $ 4,793 |
| Property, plant and equipment purchases included in accounts payable | 1,219 | 6,002 |
| Cash paid during the period for: | | |
| Interest | $ 1,556 | $ 429 |
| Income taxes | 494 | 547 |
| Acquisition of noncash assets | $ | $ 14,379 |
| Liabilities assumed | | 1,226 |

## 4. INVENTORIES

Inventories are comprised of the following (in thousands):

| | As of March 29, 2013 | December 28, 2012 |
|---|---|---|
| Raw materials | $ 65,027 | $ 58,204 |
| Work-in-process | 32,930 | 30,022 |
| Finished goods | 20,222 | 18,386 |
| Total | $ 118,179 | $ 106,612 |

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**GREATBATCH, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited**

## 5. INTANGIBLE ASSETS

Amortizing intangible assets are comprised of the following (in thousands):

| At March 29, 2013 | Gross Carrying Amount | Accumulated Amortization | Foreign Currency Translation | Net Carrying Amount |
|---|---|---|---|---|
| Technology and patents | $ 95,576 | $ (63,574) | $ 1,665 | $ 33,667 |
| Customer lists | 68,257 | (20,367) | 778 | 48,668 |
| Other | 4,434 | (4,356) | 804 | 882 |
| Total amortizing intangible assets | $ 168,267 | $ (88,297) | $ 3,247 | $ 83,217 |
| **At December 28, 2012** | | | | |
| Technology and patents | $ 95,576 | $ (61,659) | $ 1,932 | $ 35,849 |
| Customer lists | 68,257 | (18,929) | 1,270 | 50,598 |
| Other | 4,434 | (4,341) | 805 | 898 |
| Total amortizing intangible assets | $ 168,267 | $ (84,929) | $ 4,007 | $ 87,345 |

Aggregate intangible asset amortization expense is comprised of the following (in thousands):

| | Three Months Ended | |
|---|---|---|
| | March 29, 2013 | March 30, 2012 |
| Cost of sales | $ 1,780 | $ 1,895 |
| Selling, general and administrative expenses | 1,452 | 1,561 |
| Research, development and engineering costs, net | 136 | 136 |
| Total intangible asset amortization expense | $ 3,368 | $ 3,592 |

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GREATBATCH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS    Unaudited

Estimated future intangible asset amortization expense based on the current carrying value is as follows (in thousands):

| | Estimated Amortization Expense |
|---|---|
| Remainder of 2013 | $ 9,771 |
| 2014 | 13,364 |
| 2015 | 12,313 |
| 2016 | 10,018 |
| 2017 | 8,895 |
| Thereafter | 28,856 |
| Total estimated amortization expense | $ 83,217 |

Indefinite-lived intangible assets are comprised of the following (in thousands):

| | Trademarks and Tradenames | IPR&D | Total |
|---|---|---|---|
| At December 28, 2012 | $ 20,288 | $ 540 | $ 20,828 |
| At March 29, 2013 | $ 20,288 | $ 540 | $ 20,828 |

The change in goodwill is as follows (in thousands):

| | Implantable Medical | Electrochem | Total |
|---|---|---|---|
| At December 28, 2012 | $ 307,201 | $ 41,834 | $ 349,035 |
| Goodwill disposed (Note 9) | (2,771) | | (2,771) |
| Foreign currency translation | (1,593) | | (1,593) |
| At March 29, 2013 | $ 302,837 | $ 41,834 | $ 344,671 |

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**GREATBATCH, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited**

**6. DEBT**

Long-term debt is comprised of the following (in thousands):

| | As of March 29, 2013 | As of December 28, 2012 |
|---|---|---|
| Revolving line of credit | $ 233,000 | $ 33,000 |
| 2.25% convertible subordinated notes | | 197,782 |
| Unamortized discount | | (5,368) |
| Total long-term debt | $ 233,000 | $ 225,414 |

***Revolving Line of Credit*** The Company has a revolving credit facility (the Credit Facility ), which provides a $400 million secured revolving credit facility, and can be increased by $200 million upon the Company s request and approval by the lenders. The Credit Facility also contains a $15 million letter of credit subfacility and a $15 million swingline subfacility. The Credit Facility has a maturity date of June 24, 2016.

The Credit Facility is secured by the Company s non-realty assets including cash, accounts receivable and inventories. Interest rates under the Credit Facility are, at the Company s option either at: (i) the prime rate plus the applicable margin, which ranges between 0.0% and 1.0%, based on the Company s total leverage ratio or (ii) the applicable LIBOR rate plus the applicable margin, which ranges between 1.5% and 3.0%, based on the Company s total leverage ratio. Loans under the swingline subfacility will bear interest at the prime rate plus the applicable margin, which ranges between 0.0% and 1.0%, based on the Company s total leverage ratio. The Company is also required to pay a commitment fee which, varies between 0.175% and 0.25% depending on the Company s total leverage ratio.

The Credit Facility contains limitations on the incurrence of indebtedness, liens and licensing of intellectual property, investments and certain payments. The Credit Facility permits the Company to engage in the following activities up to an aggregate amount of $250 million: 1) engage in permitted acquisitions in the aggregate not to exceed $250 million; 2) make other investments in the aggregate not to exceed $60 million; 3) make stock repurchases not to exceed $60 million in the aggregate; and 4) retire up to $198 million of CSN (defined below). At any time that the total leverage ratio of the Company for the two most recently ended fiscal quarters is less than 2.75 to 1.0, the Company may make an election to reset each of the amounts specified above. Additionally, these limitations can be waived upon the Company s request and approval of a majority of the lenders. As a result of the repayment of CSN during the first quarter of 2013 (discussed below), as of March 29, 2013, the Company s availability under the above limits were reduced to the aggregate limit of $49 million.

The Credit Facility requires the Company to maintain a rolling four quarter ratio of adjusted EBITDA to interest expense of at least 3.0 to 1.0, and a total leverage ratio of not greater than 4.0 to 1.0. The calculation of adjusted EBITDA and total leverage ratio excludes non-cash charges, extraordinary, unusual, or non-recurring expenses or losses, non-cash stock-based compensation, and non-recurring expenses or charges incurred in connection with permitted acquisitions. As of March 29, 2013, the Company was in compliance with all covenants.

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GREATBATCH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited

The Credit Facility contains customary events of default. Upon the occurrence and during the continuance of an event of default, a majority of the lenders may declare the outstanding advances and all other obligations under the Credit Facility immediately due and payable.

As of March 29, 2013, the weighted average interest rate on borrowings under the Credit Facility, which does not take into account the impact of the Company s interest rate swap, was 1.98%. As of March 29, 2013, the Company had $167 million of borrowing capacity available under the Credit Facility. This borrowing capacity may vary from period to period based upon the debt levels of the Company and the level of EBITDA, which impacts the covenant calculations described above.

***Interest Rate Swap*** From time to time, the Company enters into interest rate swap agreements in order to hedge against potential changes in cash flows on the outstanding debt on the Credit Facility. The receive variable leg of the interest rate swaps and the variable rate paid on the debt have the same rate of interest, excluding the credit spread, and resets and pays interest on the same date. During 2012, the Company entered into a three-year $150 million interest rate swap, which amortizes $50 million per year and became effective on February 20, 2013. This swap was entered into in order to hedge against potential changes in cash flows on the outstanding Credit Facility borrowings which are also indexed to the one-month LIBOR rate. This swap is accounted for as a cash flow hedge. Information regarding the Company s outstanding interest rate swap as of March 29, 2013 is as follows (dollars in thousands):

| Instrument | Type of Hedge | Notional Amount | Start Date | End Date | Pay Fixed Rate | Current Receive Floating Rate | Fair Value March 29, 2013 | Balance Sheet Location |
|---|---|---|---|---|---|---|---|---|
| Interest rate swap | Cash flow | $ 150,000 | Feb-13 | Feb-16 | 0.573% | 0.023% | $ (626) | Other Long-Term Liabilities |

The estimated fair value of the interest rate swap agreement represents the amount the Company expects to receive (pay) to terminate the contract. No portion of the change in fair value of the Company s interest rate swap during the three months ended March 29, 2013 was considered ineffective. The amount recorded as Interest Expense during the three months ended March 29, 2013 and March 30, 2012 related to the Company s interest rate swaps was $0.06 million and $0.0 million, respectively.

***Convertible Subordinated Notes*** In March 2007, the Company completed a private placement of $197.8 million of convertible subordinated notes ( CSN ) at a 5% discount. CSN accrued interest at 2.25% per annum, payable semi-annually, and were due on June 15, 2013. The effective interest rate of CSN, which took into consideration the amortization of the discount and deferred fees related to the issuance of these notes, was 8.5%. The discount on CSN was amortized to the redemption date utilizing the effective interest method. On February 20, 2013, the Company redeemed all outstanding CSN, which was funded with borrowings under the Credit Facility.

**GREATBATCH, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited**

The contractual interest and discount amortization for CSN were as follows (in thousands):

| | Three Months Ended | |
|---|---|---|
| | March 29, 2013 | March 30, 2012 |
| Contractual interest | $ 634 | $ 1,113 |
| Discount amortization | 5,368 | |