

GREATBATCH, INC.
Form 10-Q
November 05, 2013
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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 September 27, 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 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 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

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

The number of shares outstanding of the Company's common stock, \$0.001 par value per share, as of November 5, 2013 was: 24,135,656 shares.

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Greatbatch, Inc.

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Table of Contents**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	
	September 27, 2013	December 28, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,973	\$ 20,284
Accounts receivable, net of allowance for doubtful accounts of \$2.0 million in 2013 and \$2.4 million in 2012	130,966	120,923
Inventories	122,823	106,612
Refundable income taxes	566	
Deferred income taxes	8,077	7,678
Prepaid expenses and other current assets	8,028	12,636
Total current assets	275,433	268,133
Property, plant and equipment, net	147,431	150,893
Amortizing intangible assets, net	77,518	87,345
Indefinite-lived intangible assets	20,402	20,828
Goodwill	346,614	349,035
Deferred income taxes	2,762	2,534
Other assets	14,551	11,107
Total assets	\$ 884,711	\$ 889,875
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 36,478	\$ 45,274
Income taxes payable	11,177	94
Deferred income taxes	881	874
Accrued expenses	43,207	45,515
Total current liabilities	91,743	91,757
Long-term debt	210,000	225,414
Deferred income taxes	51,732	82,462
Other long-term liabilities	6,779	9,382

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Total liabilities	360,254	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; 24,141,395 shares issued and 24,119,390 shares outstanding in 2013 23,731,570 shares issued and 23,711,838 shares outstanding in 2012	24	24
Additional paid-in capital	336,491	320,618
Treasury stock, at cost, 22,005 shares in 2013 and 19,732 shares in 2012	(593)	(452)
Retained earnings	174,209	147,723
Accumulated other comprehensive income	14,326	12,947
Total stockholders' equity	524,457	480,860
Total liabilities and stockholders' equity	\$ 884,711	\$ 889,875

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

Table of Contents**GREATBATCH, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****AND COMPREHENSIVE INCOME (LOSS) Unaudited****(in thousands except per share data)**

	Three Months Ended		Nine Months Ended	
	September 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012
Sales	\$ 167,730	\$ 161,340	\$ 487,326	\$ 486,991
Cost of sales	111,853	110,386	325,398	337,216
Gross profit	55,877	50,954	161,928	149,775
Operating expenses:				
Selling, general and administrative expenses	21,569	20,274	63,909	60,053
Research, development and engineering costs, net	13,806	13,240	38,983	41,325
Other operating expenses, net	3,500	15,313	10,560	23,981
Total operating expenses	38,875	48,827	113,452	125,359
Operating income	17,002	2,127	48,476	24,416
Interest expense	1,515	4,401	9,948	13,175
Other (income) expense, net	(57)	(102)	907	424
Income (loss) before provision for income taxes	15,544	(2,172)	37,621	10,817
Provision for income taxes	4,473	5,389	11,135	10,060
Net income (loss)	\$ 11,071	\$ (7,561)	\$ 26,486	\$ 757
Earnings (loss) per share:				
Basic	\$ 0.46	\$ (0.32)	\$ 1.11	\$ 0.03
Diluted	\$ 0.44	\$ (0.32)	\$ 1.06	\$ 0.03
Weighted average shares outstanding:				
Basic	24,047	23,646	23,904	23,559
Diluted	25,188	23,646	25,017	23,924
Comprehensive income (loss):				
Net income (loss)	\$ 11,071	\$ (7,561)	\$ 26,486	\$ 757
Other comprehensive income:				
Foreign currency translation gain (loss)	3,579	1,005	1,147	(522)
Net change in cash flow hedges, net of tax	(403)	399	(365)	924
Defined benefit plan liability adjustment, net of tax			597	
Other comprehensive income	3,176	1,404	1,379	402

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Comprehensive income (loss)	\$ 14,247	\$ (6,157)	\$ 27,865	\$ 1,159
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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)

	Nine Months Ended	
	September 27, 2013	September 28, 2012
<u>Cash flows from operating activities:</u>		
Net income	\$ 26,486	\$ 757
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	26,658	34,070
Debt related amortization included in interest expense	6,171	9,008
Stock-based compensation	11,413	9,007
Other non-cash losses	184	2,950
Deferred income taxes	(31,197)	3,004
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(9,901)	(22,795)
Inventories	(15,999)	(4,765)
Prepaid expenses and other current assets	1,010	1,380
Accounts payable	(7,220)	3,257
Accrued expenses	(1,732)	(314)
Income taxes payable	10,202	3,985
Net cash provided by operating activities	16,075	39,544
<u>Cash flows from investing activities:</u>		
Proceeds from sale of orthopaedic product lines (Note 9)	3,228	
Acquisition of property, plant and equipment	(14,953)	(33,645)
Purchase of cost and equity method investments, net	(1,928)	(1,653)
Acquisitions, net of cash acquired		(17,224)
Other investing activities	(194)	95
Net cash used in investing activities	(13,847)	(52,427)
<u>Cash flows from financing activities:</u>		
Principal payments of long-term debt	(445,782)	(24,000)
Proceeds from issuance of long-term debt	425,000	10,000
Issuance of common stock	6,213	1,056
Payment of debt issuance costs	(2,697)	
Other financing activities	(327)	(12)
Net cash used in financing activities	(17,593)	(12,956)

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Effect of foreign currency exchange rates on cash and cash equivalents	54	174
Net decrease in cash and cash equivalents	(15,311)	(25,665)
Cash and cash equivalents, beginning of period	20,284	36,508
Cash and cash equivalents, end of period	\$ 4,973	\$ 10,843

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		Additional Paid-In Capital	Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders Equity
	Shares	Amount		Shares	Amount			
At December 28, 2012	23,732	\$ 24	\$ 320,618	(20)	\$ (452)	\$ 147,723	\$ 12,947	\$ 480,860
Stock-based compensation			7,742					7,742
Net shares issued under stock incentive plans	318		5,654	(2)	(141)			5,513
Shares contributed to 401(k) Plan	91		2,477					2,477
Net income						26,486		26,486
Total other comprehensive income							1,379	1,379
At September 27, 2013	24,141	\$ 24	\$ 336,491	(22)	\$ (593)	\$ 174,209	\$ 14,326	\$ 524,457

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

Table of Contents**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 third quarter and year-to-date periods of 2013 and 2012 each contained 13 weeks and 39 weeks, respectively, and ended on September 27, and September 28, 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.

Table of Contents**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		Nine Months Ended	
	September 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012
Sales	\$ 167,730	\$ 161,340	\$ 487,326	\$ 487,431
Net income (loss)	11,071	(7,561)	26,486	583
Earnings (loss) per share:				
Basic	\$ 0.46	\$ (0.32)	\$ 1.11	\$ 0.02
Diluted	\$ 0.44	\$ (0.32)	\$ 1.06	\$ 0.02

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 (loss) 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)	Nine Months Ended	
	September 27, 2013	September 28, 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	711	4,611
Cash paid during the period for:		
Interest	\$ 4,388	\$ 3,250
Income taxes	31,755	2,923
Acquisition of noncash assets	\$	\$ 14,396
Liabilities assumed		1,244

4. INVENTORIES

Inventories are comprised of the following (in thousands):

	As of	
	September 27, 2013	December 28, 2012
Raw materials	\$ 67,515	\$ 58,204
Work-in-process	38,321	30,022
Finished goods	16,987	18,386
Total	\$ 122,823	\$ 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):

	Gross Carrying Amount	Accumulated Amortization	Foreign Currency Translation	Net Carrying Amount
At September 27, 2013				
Technology and patents	\$ 95,576	\$ (68,427)	\$ 3,129	\$ 30,278
Customer lists	68,257	(22,076)	207	46,388
Other	4,434	(4,385)	803	852
Total amortizing intangible assets	\$ 168,267	\$ (94,888)	\$ 4,139	\$ 77,518
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		Nine Months Ended	
	September 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012
Cost of sales	\$ 1,668	\$ 1,863	\$ 5,207	\$ 5,658
Selling, general and administrative expenses	1,446	1,573	4,343	4,713
Research, development and engineering costs, net	137	136	409	409
Total intangible asset amortization expense	\$ 3,251	\$ 3,572	\$ 9,959	\$ 10,780

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

	Estimated Amortization Expense
Remainder of 2013	\$ 3,207
2014	13,437
2015	12,386
2016	10,092
2017	8,969
Thereafter	29,427
Total estimated amortization expense	\$ 77,518

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
Indefinite-lived asset write-off		(426)	(426)
At September 27, 2013	\$ 20,288	\$ 114	\$ 20,402

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	350		350
At September 27, 2013	\$ 304,780	\$ 41,834	\$ 346,614

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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	
	September 27, 2013	December 28, 2012
Revolving line of credit	\$ 10,000	\$ 33,000
Variable rate term loan	200,000	
2.25% convertible subordinated notes		197,782
Unamortized discount		(5,368)
Total long-term debt	\$ 210,000	\$ 225,414

Credit Facility In September 2013, the Company amended and extended its credit facility (the Credit Facility). The new Credit Facility provides a \$300 million revolving credit facility (the Revolving Credit Facility), a \$200 million term loan (the Term Loan), a \$15 million letter of credit subfacility, and a \$15 million swingline subfacility. The Credit Facility can be increased by \$200 million upon the Company's request and approval by the lenders. The Revolving Credit Facility has a maturity date of September 20, 2018, which may be extended to September 20, 2019 upon notice by the Company and subject to certain conditions. The principal of the Term Loan is payable in quarterly installments as specified in the Credit Facility until its maturity date of September 20, 2019 when the unpaid balance is due in full.

The Credit Facility is secured by the Company's non-realty assets including cash, accounts receivable and inventories. Interest rates on the revolving and term loans 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 0.75%, based on the Company's total leverage ratio or (ii) the applicable LIBOR rate plus the applicable margin, which ranges between 1.375% and 2.75%, 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 0.75%, 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 \$300 million: 1) engage in permitted acquisitions in the aggregate not to exceed \$250 million; 2) make other investments in the aggregate not to exceed \$100 million; 3) make stock repurchases and declare dividends not to exceed \$150 million in the aggregate; and 4) make investments in foreign subsidiaries not to exceed \$20 million in the aggregate. 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 of September 27, 2013, the Company had available to it 100% of the above limits except for the aggregate limit and other investments limit which are now \$299 million and \$99 million, respectively.

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GREATBATCH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited

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 4.5 to 1.0 and a total leverage ratio not greater than 4.25 to 1.0 after January 2, 2016. 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 September 27, 2013, the Company was in compliance with all covenants under the Credit Facility.

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 September 27, 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 1.81%. As of September 27, 2013, the Company had \$290 million of borrowing capacity available under the Credit Facility. This borrowing capacity may vary from period to period based upon the debt and EBITDA levels of the Company, 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 borrowings on the Credit Facility. The variable rate received on 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. 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 being accounted for as a cash flow hedge. Information regarding the Company's outstanding interest rate swap as of September 27, 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 Sept. 27, 2013	Balance Sheet Location
Interest rate swap	Cash flow	\$ 150,000	Feb-13	Feb-16	0.573%	0.180%	\$(400)	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 nine months ended September 27, 2013 was considered ineffective. The amount recorded as Interest Expense during the three and nine months ended September 27, 2013 related to the Company's interest rate swap was \$0.1 million and \$0.3 million, respectively.

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GREATBATCH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited

Convertible Subordinated Notes In March 2007, the Company issued \$197.8 million of convertible subordinated notes (CSN) at a 5% discount. CSN accrued interest at 2.25% per annum. 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%. On February 20, 2013, the Company redeemed all outstanding CSN.

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

	Three Months Ended		Nine Months Ended		
	September 27,	September 28,	September 27,	September 28,	
	2013	2012	2013	2012	
Contractual interest	\$	\$	1,113	\$ 634	\$ 3,338
Discount amortization			2,781	5,368	8,205

The expected future minimum principal payments under the Credit Facility as of September 27, 2013 is as follows (in thousands):

Remainder of 2013	\$ 2,500
2014	10,000
2015	11,250
2016	16,250
2017	20,000
Thereafter	150,000
Total	\$ 210,000

The Company has the ability and intent to use availability under the Revolving Credit Facility to fund principal payments on the Term Loan.

Deferred Financing Fees - The change in deferred financing fees is as follows (in thousands):

At December 28, 2012	\$ 2,056
Financing costs deferred	2,697
Write-off during the period	(156)
Amortization during the period	(648)
At September 27, 2013	\$ 3,949

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The Company is required to provide its employees located in Switzerland, Mexico and France certain statutorily mandated defined benefits. Under these plans, benefits accrue to employees based upon years of service, position, age and compensation. The defined benefit plan provided to employees located in Switzerland is a funded contributory plan while the plans that provide benefits to employees located in Mexico and France are unfunded and noncontributory. The liability and corresponding expense related to these benefit plans is based on actuarial computations of current and future benefits for employees.

During 2012, the Company transferred manufacturing and development operations performed at its facilities in Switzerland into other existing facilities. As a result, the Company curtailed its defined benefit plan provided to employees at those Swiss facilities during the third quarter of 2012. In accordance with ASC 715, the gain recognized in connection with this curtailment is realized as the related employees are terminated. As nearly all of the Swiss pension liability is expected to be paid in 2013, the Company moved all Swiss pension plan assets into cash accounts during 2012. Swiss plan assets are expected to be sufficient to cover plan liabilities. During 2013, the Company settled approximately \$7.7 million of its defined benefit obligation.

The change in net defined benefit plan liability is as follows (in thousands):

At December 28, 2012	\$ 3,946
Service cost	227
Interest cost	144
Curtailment	(1,581)
Actuarial gain	(171)
Benefit payments	(125)
Foreign currency translation	14
At September 27, 2013	\$ 2,454

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Amounts recognized in Accumulated Other Comprehensive Income are as follows (in thousands):

	Nine Months Ended September 27, 2013
Net gain occurring during the period	\$ (171)
Amortization of losses	(581)
Prior service cost	155
Pre-tax adjustment	(597)
Taxes	
Net gain	\$ (597)

Net defined benefit cost (income) is comprised of the following (in thousands):

	Three Months Ended		Nine Months Ended	
	September 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012
Service cost	\$ 76	\$ 272	\$ 227	\$ 835
Interest cost	41	98	144	305
Curtailment gain (Other Operating Expenses, Net)			(1,150)	
Amortization of net loss		30		92
Expected return on plan assets		(103)		(318)
Net defined benefit (income) cost	\$ 117	\$ 297	\$ (779)	\$ 914

Table of Contents**GREATBATCH, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Unaudited****8. STOCK-BASED COMPENSATION**

The components and classification of stock-based compensation expense were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012
Stock options	\$ 1,374	\$ 671	\$ 2,784	\$ 2,038
Restricted stock and units	2,013	1,523	4,958	4,559
401(k) stock contribution	679	1,280	3,671	2,410
Total stock-based compensation expense	\$ 4,066	\$ 3,474	\$ 11,413	\$ 9,007
Cost of sales	\$ 1,117	\$ 1,119	\$ 3,246	\$ 2,486
Selling, general and administrative	1,598	2,006	6,052	5,732
Research, development and engineering	215	349	979	789
2013 operating unit realignment modification expense				
Other Operating Expenses, Net (Note 9)				