

GREATBATCH, INC.  
Form 10-Q  
November 12, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended October 3, 2014  
Commission File Number 1-16137

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GREATBATCH, INC.  
(Exact name of Registrant as specified in its charter)

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Delaware  
(State of  
Incorporation)  
2595 Dallas Parkway  
Suite 310  
Frisco, Texas 75034  
(Address of principal executive offices)  
(716) 759-5600  
(Registrant’s telephone number, including area code)

16-1531026  
(I.R.S. Employer  
Identification No.)

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 12, 2014 was: 24,995,025 shares.

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Greatbatch, Inc.

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As of and for the Quarterly Period Ended October 3, 2014

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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 October 3, 2014	January 3, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$61,582	\$35,465
Accounts receivable, net of allowance for doubtful accounts of \$1.6 million in 2014 and \$2.0 million in 2013	121,615	113,679
Inventories	128,727	118,358
Refundable income taxes	—	2,306
Deferred income taxes	5,890	6,008
Prepaid expenses and other current assets	9,121	6,717
Total current assets	326,935	282,533
Property, plant and equipment, net	142,336	145,773
Amortizing intangible assets, net	68,763	76,122
Indefinite-lived intangible assets	20,288	20,288
Goodwill	354,583	346,656
Deferred income taxes	2,933	2,933
Other assets	15,449	16,398
Total assets	\$931,287	\$890,703
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$44,989	\$46,508
Income taxes payable	2,559	—
Deferred income taxes	613	613
Accrued expenses	41,798	44,681
Total current liabilities	89,959	91,802
Long-term debt	190,000	197,500
Deferred income taxes	50,593	52,012
Other long-term liabilities	3,673	7,334
Total liabilities	334,225	348,648
Stockholders' equity:		
Preferred stock, \$0.001 par value, authorized 100,000,000 shares; no shares issued or outstanding in 2014 or 2013	—	—
Common stock, \$0.001 par value, authorized 100,000,000 shares; 24,958,994 shares issued and 24,942,689 shares outstanding in 2014; 24,459,153 shares issued and 24,422,555 shares outstanding in 2013	25	24
Additional paid-in capital	360,435	344,915
Treasury stock, at cost, 16,305 shares in 2014 and 36,598 shares in 2013	(720)	(1,232)
Retained earnings	225,272	183,990
Accumulated other comprehensive income	12,050	14,358
Total stockholders' equity	597,062	542,055
Total liabilities and stockholders' equity	\$931,287	\$890,703

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		Nine Months Ended		
	October 3, 2014	September 27, 2013	October 3, 2014	September 27, 2013	
Sales	\$ 171,699	\$ 167,730	\$ 518,061	\$ 487,326	
Cost of sales	113,581	111,853	343,877	325,398	
Gross profit	58,118	55,877	174,184	161,928	
Operating expenses:					
Selling, general and administrative expenses	22,121	21,569	65,753	63,909	
Research, development and engineering costs, net	13,638	13,806	39,962	38,983	
Other operating expenses, net	6,176	3,500	10,223	10,560	
Total operating expenses	41,935	38,875	115,938	113,452	
Operating income	16,183	17,002	58,246	48,476	
Interest expense	1,051	1,515	3,208	9,948	
Other (income) expense, net	(3,768)	) (57	) (4,055	) 907	
Income before provision for income taxes	18,900	15,544	59,093	37,621	
Provision for income taxes	4,888	4,473	17,811	11,135	
Net income	\$ 14,012	\$ 11,071	\$ 41,282	\$ 26,486	
Earnings per share:					
Basic	\$ 0.56	\$ 0.46	\$ 1.67	\$ 1.11	
Diluted	\$ 0.54	\$ 0.44	\$ 1.60	\$ 1.06	
Weighted average shares outstanding:					
Basic	24,899	24,047	24,784	23,904	
Diluted	25,923	25,188	25,850	25,017	
Comprehensive Income					
Net income	\$ 14,012	\$ 11,071	\$ 41,282	\$ 26,486	
Other comprehensive income (loss):					
Foreign currency translation gain (loss)	(3,211	) 3,579	(2,422	) 1,147	
Net change in cash flow hedges, net of tax	(49	) (403	) 114	(365	)
Defined benefit plan liability adjustment, net of tax	—	—	—	597	
Other comprehensive income (loss)	(3,260	) 3,176	(2,308	) 1,379	
Comprehensive income	\$ 10,752	\$ 14,247	\$ 38,974	\$ 27,865	

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	
	October 3, 2014	September 27, 2013
Cash flows from operating activities:		
Net income	\$41,282	\$26,486
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,943	26,658
Debt related amortization included in interest expense	580	6,171
Stock-based compensation	10,531	11,413
Other (gains) losses	(7,191	) 184
Deferred income taxes	(3,000	) (31,197
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(8,460	) (9,901
Inventories	(7,111	) (15,999
Prepaid expenses and other current assets	(23	) 1,010
Accounts payable	(1,311	) (7,220
Accrued expenses	(3,627	) (1,732
Income taxes payable	5,070	10,202
Net cash provided by operating activities	54,683	16,075
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(16,029	) (14,953
Proceeds from sale of orthopaedic product lines (Note 9)	2,655	3,228
(Purchase of) proceeds from sale of cost and equity method investments	4,306	(1,928
Acquisitions, net of cash acquired (Note 2)	(15,801	) —
Other investing activities	—	(194
Net cash used in investing activities	(24,869	) (13,847
Cash flows from financing activities:		
Principal payments of long-term debt	(7,500	) (445,782
Proceeds from issuance of long-term debt	—	425,000
Issuance of common stock	5,705	6,213
Payment of debt issuance costs	—	(2,697
Other financing activities	(1,059	) (327
Net cash used in financing activities	(2,854	) (17,593
Effect of foreign currency exchange rates on cash and cash equivalents	(843	) 54
Net increase (decrease) in cash and cash equivalents	26,117	(15,311
Cash and cash equivalents, beginning of period	35,465	20,284
Cash and cash equivalents, end of period	\$61,582	\$4,973

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 (Loss)	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
At January 3, 2014	24,459	\$24	\$344,915	(37 )	\$(1,232 )	\$183,990	\$14,358	\$542,055
Stock-based compensation	—	—	6,800	—	—	—	—	6,800
Net shares issued under stock incentive 500 plans								