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 September 30, 2012

Commission File Number: 333-130470

Accellent Inc.
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	**84-1507827** (I.R.S. Employer Identification Number)
100 Fordham Road Wilmington, Massachusetts (Address of registrant's principal executive offices)	**01887** (Zip code)

(978) 570-6900
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 ☒

(Note: As a voluntary filer not subject to the filing requirements of Section 13 or 15(d) of the Exchange Act, the registrant has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant would have been required to file such reports) as if it were subject to such filing requirements).

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 (§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.

Large accelerated filer ☐	Accelerated filer ☐
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 ☐ No ☒

As of November 13, 2012, 1,000 shares of the Registrant's common stock were outstanding. The registrant is a wholly owned subsidiary of Accellent Holdings Corp.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ACCELLENT INC.
Unaudited Condensed Consolidated Balance Sheets
As of December 31, 2011 and September 30, 2012
(in thousands, except share and per share data)

	December 31, 2011	September 30, 2012
Assets		
Current assets:		
Cash	$ 38,858	$ 49,587
Accounts receivable, net of allowances of $1,983 and $1,904 as of December 31, 2011 and September 30, 2012, respectively	54,763	56,074
Inventory	62,153	65,106
Assets held for sale, current portion	3,874	1,767
Prepaid expenses and other current assets	4,416	5,320
Total current assets	164,064	177,854
Property, plant and equipment, net	121,153	116,555
Long-term assets held for sale	16,250	6,019
Goodwill	619,443	619,443
Other intangible assets, net	149,687	138,482
Deferred financing costs and other assets, net	16,825	14,635
Total assets	$1,087,422	$1,072,988
Liabilities and Stockholder's equity		
Current liabilities:		
Current portion of long-term debt	$ 22	$ 15
Accounts payable	21,035	23,431
Accrued payroll and benefits	7,858	10,531
Accrued interest	19,519	18,822
Liabilities held for sale	1,908	972
Accrued expenses and other current liabilities	18,747	16,086
Total current liabilities	69,089	69,857
Long-term debt	712,967	713,210
Other liabilities	38,466	41,258
Total liabilities	820,522	824,325
Stockholder's equity:		
Common stock, par value $0.01 per share, 50,000,000 shares authorized; 1,000 shares issued and outstanding at December 31, 2011 and September 30, 2012, respectively	—	—
Additional paid-in capital	638,445	638,981
Accumulated other comprehensive loss	(1,266)	(965)
Accumulated deficit	(370,279)	(389,353)
Total stockholder's equity	266,900	248,663
Total liabilities and stockholder's equity	$1,087,422	$1,072,988

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

ACCELLENT INC.
Unaudited Condensed Consolidated Statements of Operations
For the three and nine months ended September 30, 2011 and 2012
(in thousands)

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012
Net sales	$ 126,840	$ 125,961	$ 384,530	$ 376,526
Cost of sales (exclusive of amortization)	95,014	92,250	284,056	280,370
Gross profit	31,826	33,711	100,474	96,156
Operating expenses:				
Selling, general and administrative expenses	14,165	12,833	42,677	41,502
Research and development expenses	602	419	2,081	1,364
Restructuring expenses	—	714	—	2,552
Gain (loss) on disposal of assets	6	(221)	53	(254)
Amortization of intangible assets	3,735	3,735	11,205	11,205
Total operating expenses	18,508	17,480	56,016	56,369
Income from continuing operations	13,318	16,231	44,458	39,787
Other (expense) income, net:				
Interest expense, net	(17,232)	(17,379)	(51,660)	(51,879)
Other income (expense), net	1,247	592	(1,403)	(90)
Total other (expense) income, net	(15,985)	(16,787)	(53,063)	(51,969)
Loss from continuing operations before income taxes	(2,667)	(556)	(8,605)	(12,182)
Provision for income taxes	1,853	1,110	3,898	3,233
Net loss from continuing operations	(4,520)	(1,666)	(12,503)	(15,415)
Net income (loss) from discontinued operations, net of tax	121	(4,814)	944	(3,659)
Net loss	$ (4,399)	$ (6,480)	$ (11,559)	$ (19,074)

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

ACCELLENT INC.
Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)
For the three and nine months ended September 30, 2011 and 2012
(in thousands)

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012
Net loss	$ (4,399)	$ (6,480)	$ (11,559)	$ (19,074)
Other comprehensive income (loss)				
Unrealized gain (loss) on available for sale security	1,155	(250)	1,155	(57)
Cumulative translation adjustment	(2,617)	344	578	358
Comprehensive (loss)	$ (5,861)	$ (6,386)	$ (9,826)	$ (18,773)

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

ACCELLENT INC.
Unaudited Condensed Consolidated Statements of Cash Flows
For the nine months ended September 30, 2011 and 2012
(in thousands)

	September 30, 2011	September 30, 2012
Cash flows from operating activities:		
Net loss	$ (11,559)	$ (19,074)
Add: Net income (loss) from discontinued operations, net of tax	(944)	3,659
Net (loss) from continuing operations	(12,503)	(15,415)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	27,508	29,578
Amortization of debt discounts and non-cash interest accrued	2,187	2,329
Restructuring charges, net of payments	—	1,711
Loss (gain) on disposal of assets	53	(254)
Deferred income tax expense	3,017	2,099
Non-cash compensation expense	829	432
Changes in operating assets and liabilities:		
Accounts receivable	(3,588)	(3,853)
Inventory	(10,897)	(2,954)
Prepaid expenses and other current assets	(2,016)	(824)
Accounts payable, accrued expenses and other liabilities	1,138	381
Net cash provided by operating activities of continuing operations	5,728	13,230
Net cash provided by operating activities of discontinued operations	1,795	2,922
Net cash provided by operating activities	7,523	16,152
Cash flows from investing activities:		
Capital expenditures	(24,806)	(13,180)
Proceeds from sale of property and equipment	166	264
Net cash used in investing activities of continuing operations	(24,640)	(12,916)
Net cash (used in) provided by investing activities of discontinued operations	(175)	7,484
Net cash used in investing activities	(24,815)	(5,432)
Cash flows from financing activities:		
Repayments of long-term debt and capital lease obligations	(13)	(16)
Repurchase of common stock	—	(43)
Proceeds from the sale of common stock	50	—
Proceeds from exercise of options in common stock	19	—
Payment of debt issuance costs	(620)	—
Net cash used in financing activities	(564)	(59)
Effect of exchange rate changes	(39)	68
Net (decrease) increase in cash	(17,895)	10,729
Cash, beginning of period	40,787	38,858
Cash, end of period	$ 22,892	$ 49,587
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 50,253	$ 50,270
Cash paid for income taxes	$ 2,156	$ 2,749
Supplemental disclosure of non-cash investing and financing activities:		
Property and equipment purchases included in accrued expenses	$ 939	$ 854

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

ACCELLENT INC.
Notes to Unaudited Condensed Consolidated Financial Statements
September 30, 2012

1. Summary of significant accounting policies

Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of Accellent Inc. and its wholly owned subsidiaries (collectively, the "Company"). All intercompany transactions have been eliminated.

We have prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. We have prepared the accompanying unaudited condensed consolidated financial statements on the same basis as the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, and in the opinion of management, these financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full fiscal year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

There have been no significant changes in the application of our significant accounting policies that were disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, nor were there any significant changes resulting from the adoption of new accounting pronouncements.

Customer Concentration

During the three months ended September 30, 2011 and 2012, our ten largest customers accounted for approximately 65% and 62% of our consolidated net sales, respectively. During the nine months ended September 30, 2011 and 2012, our ten largest customers accounted for approximately 78% and 64% of our consolidated net sales, respectively.

The actual percentage of net sales derived from each customer whose sales represented more than 10% or more of our consolidated net sales was as follows for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2012	2011	2012
Customer A	17%	15%	21%	16%
Customer B	16%	13%	17%	13%
Customer C	10%	11%	11%	11%

At September 30, 2012, Customer A comprised approximately 11% of accounts receivable, net. At December 31, 2011, Customers A and B each comprised approximately 12% of Accounts receivable, net.

2. New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, "Comprehensive Income (ASC Topic 220): *Presentation of Comprehensive Income*," ("ASU 2011-05") which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income (loss) as part of the statement of stockholders' equity. Instead, the Company must report comprehensive income (loss) in either a single continuous statement of comprehensive income (loss) which contains two sections, net income (loss) and other comprehensive income (loss), or in two separate but consecutive statements. The Company adopted the provisions of this standard on January 1, 2012 and elected to present comprehensive income (loss) in a separate statement. The adoption of this standard did not have an impact on the Company's consolidated financial position, results of operations or cash flows.

3. Inventories

Inventories consisted of the following at December 31, 2011 and September 30, 2012 (in thousands):

	December 31, 2011	September 30, 2012
Raw materials	$ 14,934	$ 18,039
Work-in-process	26,077	29,731
Finished goods	21,142	17,336
Total	$ 62,153	$ 65,106

In connection with certain businesses that the Company has discontinued, see Note 7, the Company has reclassified $3.8 million and $1.7 million of inventory at December 31, 2011 and September 30, 2012, respectively, as Assets held for sale, current portion in the accompanying unaudited condensed consolidated balance sheets as of December 31, 2011 and September 30, 2012.

4. Goodwill and intangible assets

Goodwill is the amount by which the cost of acquired net assets in a business combination exceeds the fair value of net identifiable assets acquired. Intangible assets include the value ascribed to trade names and trademarks, developed technology and know-how, as well as customer contracts and relationships obtained in connection with business combinations.

The Company has elected October 31st as its annual impairment assessment date for goodwill and the indefinite lived intangible assets and performs additional impairment tests if triggering events occur. In connection with the divestiture activities, the Company assessed goodwill as of September 30, 2012 and determined the fair value more likely than not exceeds the carrying value of the reporting unit. No impairment charges were recorded for goodwill and the indefinite lived intangible assets during the nine months ended September 30, 2011 and 2012.

In connection with certain businesses that the Company has discontinued, see Note 7, the Company has attributed a portion of acquired goodwill to these businesses using the relative fair value method. Accordingly, approximately $5.1 million was attributed to the Company's sale of its Pittsburgh facility in May 2012 and is included in net income (loss) on discontinued operations in the accompanying unaudited condensed consolidated statements of operations for the three and nine months ended September 30, 2012. In addition, approximately $5.2 million of goodwill has been attributed to discontinued businesses not yet disposed of and is included within Long term assets held for sale in the accompanying unaudited condensed consolidated balance sheets as of December 31, 2011 and September 30, 2012.

The Company reports all amortization expense related to finite lived intangible assets separately within its unaudited condensed consolidated statement of operations. For the three and nine months ended September 30, 2011 and 2012, the Company recorded amortization expense related to intangible assets as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012
Cost of sales	$ 497	$ 497	$ 1,491	$ 1,491
Selling, general and administrative	3,238	3,238	9,714	9,714
Total	$ 3,735	$ 3,735	$ 11,205	$ 11,205

Intangible assets consisted of the following at December 31, 2011 (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology and know how	$ 16,991	$ (12,186)	$ 4,805
Customer contracts and relationships	197,575	(82,093)	115,482
Trade names and trademarks	29,400	—	29,400
Total intangible assets	$243,966	$ (94,279)	$149,687

Intangible assets consisted of the following at September 30, 2012 (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology and know how	$ 16,991	$ (13,677)	$ 3,314
Customer contracts and relationships	197,575	(91,807)	105,768
Trade names and trademarks	29,400	—	29,400
Total intangible assets	$243,966	$ (105,484)	$138,482

Estimated intangible asset amortization expense for the remainder of 2012 is approximately $3.7 million. The estimated annual intangible asset amortization expense approximates $14.9 million in 2013, $13.8 million in 2014 and $13.0 million in each of 2015 and 2016.

At December 31, 2011 and September 30, 2012, the remaining weighted-average amortization periods for the Company's finite lived intangible assets were as follows:

	Remaining weighted - average amortization period	
Finite lived intangible asset	**December 31, 2011**	**September 30, 2012**
Developed technology and know how	2.4	1.7
Customer contracts and relationships	8.9	8.2
Total finite lived intangible asset	8.7	8.0

5. Long-term debt

Long-term debt consisted of the following at December 31, 2011 and September 30, 2012 (in thousands):

	December 31, 2011	September 30, 2012
Senior secured notes maturing on February 1, 2017, interest at 8.375%	$ 400,000	$ 400,000
Senior subordinated notes maturing on November 1, 2017, interest at 10.0%	315,000	315,000
Capital lease obligations	34	26
Total debt	715,034	715,026
Less—unamortized discount	(2,045)	(1,801)
Less—current portion	(22)	(15)
Long term debt, excluding current portion	$ 712,967	$ 713,210

The Company maintains an asset backed line of credit (the "ABL Revolver") that provides for up to $75.0 million of borrowing capacity, subject to borrowing base availability. At September 30, 2012, there were no amounts outstanding under the ABL Revolver and the Company's aggregate borrowing capacity was $29.3 million, after giving effect to outstanding letters of credit totaling $12.5 million and the amount of ineligible accounts receivable and inventories, as defined in the credit agreement governing the ABL Revolver.

6. Restructuring

During the nine months ended September 30, 2011, the Company undertook no restructuring actions. During the nine months ended September 30, 2012, the Company completed the closure of its manufacturing facility in Manchester, England. In April of 2012 the Manchester facility was closed, and substantially all employees were terminated. All affected employees were provided stay-bonuses as well as one-time termination benefits that were received upon cessation of employment, provided they remained with the Company through the closing date. The total one-time termination benefits totaled approximately $0.6 million and were recorded over each employee's remaining service period as they were required to stay through their termination date to receive the benefits. During the nine months ended September 30, 2012, the Company recorded $1.4 million of restructuring costs including $1.0 million related to lease termination costs and $0.4 million related to one-time termination benefits that are recorded within "Restructuring expenses" in the accompanying unaudited condensed consolidated statement of operations.

In April 2012, the Company announced a plan to close its manufacturing facility in Englewood, Colorado and the Company expects the facility to be closed no later than the first quarter of 2013 upon completion of the transfer of the facility's business to other of the Company's facilities. In connection with the planned closure, the Company will provide certain one-time termination benefits to affected employees. These one-time termination benefits are being recorded over each employee's remaining service period as employees will be required to stay through their termination date to receive the benefits. During the nine months ended September 30, 2012, the Company recorded $1.2 million of restructuring costs related to the facility's planned closure, which consisted primarily of costs related to one-time termination benefits, and are recorded within "Restructuring expenses" in the accompanying unaudited condensed consolidated statement of operations.

The following table summarizes the amounts recorded related to restructuring activities, which are included in the accompanying unaudited condensed consolidated statements of operations for the nine months ended September 30, 2012 (in thousands):

	Employee costs	Other exit costs	Total
Balance, January 1, 2012	$ 340	—	$ 340
Restructuring expenses	1,577	975	2,552
Payments	(698)	(143)	(841)
Balance at September 30, 2012	$ 1,219	$ 832	$2,051

7. Divestitures

As part of the Company's continuing efforts to better focus its efforts and align with its customers, the Company has discontinued certain businesses. The Company has accounted for these businesses as discontinued operations and, accordingly, has presented the results of operations and related cash flows as discontinued operations for all periods presented.

The Company recorded the following amounts within net income (loss) from discontinued operations, net of tax:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2012
	(In thousands)			
Loss on disposition of discontinued operations	$ —	$ (5,131)	$ —	$ (5,131)
Income from discontinued operations prior to disposition	121	317	944	1,472
Net income (loss) from discontinued operations, net of tax	$ 121	$ (4,814)	$ 944	$ (3,659)

The Company recorded a pre-tax gain of approximately $54 thousand in the second quarter of 2012 associated with the sale of the Company's facility in Pittsburgh, Pennsylvania. During the three months ended September 30, 2012, the Company finalized the accounting for the disposition and determined that goodwill amounting to $5.1 million should have been attributed to the assets of the facility in determining the gain or loss on disposition and is included within Net income (loss) from discontinued operations, net of tax in the accompanying unaudited condensed consolidated statement of operations for the three and nine months ended September 30, 2012.

Summary pre-tax operating results of the discontinued operations for all periods prior to disposition were as follows for the periods ending:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2012
	(In thousands)			
Sales	$ 6,219	$ 2,501	$ 21,210	$ 13,745
Costs and expenses	6,031	2,184	19,756	12,272
Operating income from discontinued operations	188	317	1,454	1,473
Other expenses, net	—	—	—	(1)
Income from discontinued operations before income taxes	$ 188	$ 317	$ 1,454	$ 1,472

The assets and liabilities of businesses designated as discontinued operations have been presented separately, and are reflected as assets and liabilities held for sale in the accompanying unaudited condensed consolidated balance sheets as of December 31, 2011 and September 30, 2012, as follows:

	December 31, 2011	September 30, 2012
Assets held for sale, current portion:		
Inventories	$ 3,809	$ 1,744
Prepaid expenses and other current assets	65	23
Assets held for sale, current portion	$ 3,874	$ 1,767
Long-term assets held for sale:		
Property, plant and equipment, net	$ 5,839	$ 739

Goodwill		10,411		5,280
Long-term assets held for sale	$	16,250	$	6,019
Liabilities held for sale:				
Accounts payable and accrued expenses	$	1,908	$	972
Liabilities held for sale	$	1,908	$	972

The businesses designated as discontinued operations are not expected to have material continuing cash flows beyond the disposition date of the respective businesses.

8. Stock-based compensation

Employee stock-based compensation

The Company maintains a 2005 Equity Plan for Key Employees of Accellent Holdings Corp. (the "2005 Equity Plan"), which provides for grants of incentive stock options, nonqualified stock options, restricted stock units and stock appreciation rights. Vesting is determined in the applicable stock option agreement and generally occurs either in equal installments over five years from the date of grant (“Time-Based”), or upon achievement of certain performance targets, over a five-year period (“Performance-Based”). Targets underlying the vesting of Performance-Based shares are generally achieved upon the attainment of a specified level of Adjusted EBITDA, as defined in the indenture governing the Company’s senior secured notes, measured each calendar year. The vesting requirements for Performance-Based shares permit a catch-up of vesting should the target not be achieved in a calendar year but achieved in a subsequent calendar year, over the five year vesting period. In addition, in connection with the acquisition of the Company in 2005, the Company exchanged fully vested stock options to acquire common shares of its predecessor entities for 4,901,107 fully vested stock options, or “Roll-Over” options, of Accellent Holdings Corp. which are recorded as a liability until such options are exercised, forfeited, expired or settled.

The table below summarizes the activity relating to the Roll-Over options during the three and nine months ended September 30, 2011 and 2012:

	Three months ended				Nine months ended			
	September 30, 2011		September 30, 2012		September 30, 2011		September 30, 2012	
	Liability (in thousands)	Roll-Over Shares Outstanding	Liability (in thousands)	Roll-Over Shares Outstanding	Liability (in thousands)	Roll-Over Shares Outstanding	Liability (in thousands)	Roll-Over Shares Outstanding
Balance at January 1	$ 358	201,817	$ 141	80,727	$ 448	250,049	$ 355	201,817
Shares repurchased	—	—	—	—	—	—	(119)	(67,607)
Shares exercised	—	—	—	—	(23)	(12,995)	(58)	(33,301)
Options forfeited	—	—	—	—	(61)	(35,237)	(35)	(20,182)
Change in fair value	—	—	—	—	(6)	—	(2)	—
Balance at end of period	$ 358	201,817	$ 141	80,727	$ 358	201,817	$ 141	80,727

The Company’s stock-based compensation expense is based on the fair value of stock-based awards measured at the grant date that is recognized over the relevant service period and includes any adjustments to the fair value of the Company’s liability related to the Roll-Over options. For stock based awards the Company estimates the fair value of each award on the date of grant using the Black-Scholes option valuation model. For Roll-Over options, the Company estimates their fair value at each balance sheet date. The Black-Scholes option pricing model incorporates assumptions regarding stock price volatility, the expected life of the option, a risk-free interest rate, dividend yield, and an estimate of the fair value of Accellent Holdings Corp. common stock. The fair value of Accellent Holdings Corp.’s common stock is determined by the Board of Directors of Accellent Holdings Corp. utilizing a market based approach. The volatility of Accellent Holdings Corp.’s common stock is estimated utilizing a weighted average stock price volatility of its publicly traded peer companies, adjusted for the Company’s financial performance and the risks associated with the illiquid nature of Accellent Holdings Corp. common stock. The expected life of an option is estimated based on past exercise experience. The Company used the following assumptions as of September 30, 2012 to determine the fair value of the Roll-Over Options:

	September 30, 2012
Expected term to exercise	1.68 years
Expected volatility	26.44%
Risk-free rate	0.23%
Dividend yield	0.00%

During the three months ended September 30, 2011 and 2012, the Company granted stock options to employees to purchase approximately 362,500 and 2,347,500 shares, respectively, of Accellent Holdings Corp. common stock. Of the total stock options granted during the three months ended September 30, 2011 and 2012, 181,250 and 1,173,750, respectively, were Performance-Based awards. Stock options granted during the three months ended September 30, 2011 and 2012 had a weighted average grant date fair value of $0.98 and $0.79 per share, respectively.

During the nine months ended September 30, 2011 and 2012, the Company granted stock options to employees to purchase approximately 682,500 and 2,772,500 shares, respectively, of Accellent Holdings Corp. common stock. Of the total stock options granted during the nine months ended September 30, 2011 and 2012, 341,250 and 1,386,250, respectively, were Performance-Based awards. Stock options granted during the nine months ended September 30, 2011 and 2012 had a weighted average grant date fair value of $1.00 and $0.79 per share, respectively.

The following tables summarize the classification of recorded stock-based compensation in the unaudited condensed consolidated statements of operations and the recorded stock-based compensation by type of award for the three and nine months ended September 30, 2011 and 2012:

Classification of expense (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012
Cost of sales	$ 40	$ 43	$ 94	$ 81
Selling, general and administrative	231	139	667	283
Total	$ 271	$ 182	$ 761	$ 364

Stock-based compensation related to stock awards by type of award (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012
Time-based vesting options	$ 249	$ 130	$ 701	$ 314
Performance-based vesting options	—	—	—	—
Restricted stock awards	22	52	66	52
Roll-over options	—	—	(6)	(2)
Total expense	$ 271	$ 182	$ 761	$ 364

At September 30, 2012, the Company determined that attainment of certain of the targets through 2012 necessary for Performance-Based options to vest is not probable. Accordingly, the Company has not recorded stock-based compensation expense for Performance-Based Stock Awards during the nine months ended September 30, 2012.

The total unvested Performance-Based shares and their aggregate fair values were 3,824,021 and 4,923,067 and $4.4 million and $5.1 million at September 30, 2011 and 2012, respectively. The total unvested Time-Based shares and their aggregate fair values were 2,539,800 and 3,131,850 and $2.8 million and $3.0 million at September 30, 2011 and 2012, respectively.

During the three months ended September 30, 2012 the Company granted 837,500 shares of Restricted Stock to employees, none of which were vested at September 30, 2012. The awards vest annually each year over a five year period beginning on the grant date. The aggregate grant date fair value was $2,093,750, or $2.50 per share. The Company recorded approximately $52,000 of stock-based compensation expense during the three months ended September 30, 2012 related to these awards.

Non-employee stock-based compensation During the three and nine months ended September 30, 2011, the Company recognized approximately $23,000 and $68,000, respectively, of non-employee stock-based compensation related to fees paid to members of the Company's Board of Directors. During the three and nine months ended September 30, 2012, the Company recognized approximately $22,500 and $67,500 respectively, of non-employee stock-based compensation related to fees paid to members of the Company's Board of Directors. These fees are recorded as a liability and recorded in "Other liabilities" in the unaudited condensed consolidated balance sheets.

9. Income taxes

The Company provides for deferred income taxes resulting from temporary differences between financial and taxable income as well as current taxes attributable to the states and foreign jurisdictions in which we are required to pay income taxes. The Company records valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. The Company has not provided for U.S. income taxes on the undistributed earnings of non-U.S. subsidiaries, as these earnings have been permanently reinvested or would be offset by foreign tax credits.

Income tax expense for the three and nine months ended September 30, 2011 was $1.9 million and $3.9 million and included $0.7 million and $2.2 million of deferred income tax expense for differences in the book and tax treatment of goodwill and $1.2 million and $1.7 million in state and foreign income taxes.

Income tax expense for the three and nine months ended September 30, 2012 was $1.1 million and $3.2 million and included $0.7 million and $2.2 million of deferred income tax expense for differences in the book and tax treatment of goodwill and $0.4 million and $1.0 million in state and foreign income taxes.

The Company believes that it is more likely than not that the Company will not recognize the benefits of its domestic federal and state deferred tax assets. As a result, the Company continues to provide a full valuation allowance on those deferred tax assets. The Company's deferred tax assets are not offset by the tax liabilities related to non-deductible goodwill when determining the need for a valuation allowance. The Company has $29.4 million and $32.6 million of net deferred tax liabilities included in "Other liabilities" in the accompanying unaudited condensed consolidated balance sheets as of December 31, 2011 and September 30, 2012, respectively, relating to goodwill basis differences.

The Company is subject to income taxes in the U.S. Federal jurisdiction, and various state and foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax law and regulations and require significant judgment to apply. The Company is not currently under any examination by U.S. Federal, state and local, or non-U.S. tax authorities. The tax years ended December 31, 2005 through 2011, remain subject to examination by major tax jurisdictions. However, since the Company has net operating loss carryforwards, which may be utilized in future years to offset taxable income, those years may also be subject to review by relevant taxing authorities if utilized, notwithstanding that the statute for assessment may have closed.

10. Related party transactions

The Company maintains a management services agreement with its principal equity owner, Kohlberg, Kravis, Roberts & Co., ("KKR") pursuant to which KKR will provide certain structuring, consulting and management advisory services. During the three and nine months ended September 30, 2011, the Company incurred management fees and related expenses pursuant to this agreement of $0.3 million and $1 million, respectively. During the three and nine months ended September 30, 2012, the Company incurred management fees and related expenses pursuant to this agreement of $0.3 million and $1.0 million, respectively. As of December 31, 2011 and September 30, 2012, the Company owed KKR $0.3 million and $0.3 million, respectively, for unpaid management fees which are included in "Accrued expenses and other current liabilities" in the accompanying unaudited condensed consolidated balance sheets. The Company has also historically utilized the services of Capstone Consulting LLC ("Capstone"), an entity affiliated with KKR. During the three and nine months ended September 30, 2011, the Company incurred consulting fees and related expenses of $0.0 million and $0.2 million, respectively. No fees or expenses related to Capstone were incurred during the three and nine months ended September 30, 2012. At December 31, 2011 and September 30, 2012, the Company owed Capstone $0.3 million and $0.3 million, respectively.

In addition to the above, entities affiliated with KKR Asset Management ("KKR-AM"), an affiliate of KKR, owned approximately $31.7 million principal amount of the Company's Senior Secured Notes and approximately $35.5 million principal amount of the Company's 2017 Subordinated Notes at September 30, 2012. Entities affiliated with KKR-AM, an affiliate of KKR, owned approximately $31.3 million principal amount of the Company's Senior Secured Notes and approximately $27.9 million principal amount of the Company's 2017 Subordinated Notes at December 31, 2011.

The Company sells products to Biomet, Inc., which in September 2007 became privately owned by a consortium of private equity sponsors, including KKR. Net sales resulting from product shipments to Biomet, Inc. during the three and nine months ended September 30, 2011 totaled $0.0 million and $0.3 million, respectively. Net sales resulting from product shipments to Biomet, Inc. during the three and nine months ended September 30, 2012 totaled $0.1 million and $0.3 million, respectively. At December 31, 2011 and September 30, 2012, accounts receivable from Biomet aggregated $0.1 million and $0.1 million, respectively.

The Company utilizes the services of SunGard Data Systems, Inc. ("SunGard"), a provider of software and information processing solutions, which is privately owned by a consortium of private equity sponsors, including KKR and Bain Capital. The Company maintains an agreement with SunGard to provide information systems hosting services for the Company. The Company incurred approximately $0.2 million and $0.4 million in fees in connection with this agreement for the three and nine month periods ended September 30, 2011. The Company incurred approximately $0.2 million and $0.6 million in fees in connection with this agreement for the three and nine month periods ended September 30, 2012.

11. Fair value measurements

The Company determines fair value utilizing a fair value hierarchy that ranks the quality and reliability of the information used to determine fair value. In general, fair values determined using Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined using Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

The Company uses the Black-Scholes option pricing model to value its liability for Roll-Over option awards. A roll-forward of the change in fair value of this financial instrument and information regarding the inputs used in the Black-Scholes model, that are determined by management, that is used to derive the Roll-Over options fair value, is included in Note 8.

The following tables provide a summary of the financial assets and liabilities recorded at fair value at December 31, 2011 and September 30, 2012:

	Total Carrying Value at December 31, 2011	Fair Value Measurements at December 31, 2011 determined using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment in Available for Sale Security	$ 1,155	$ 1,155	$ —	$ —
Liability for Roll-Over options	$ 355	$ —	$ —	$ 355

	Total Carrying Value at September 30, 2012	Fair Value Measurements at September 30, 2012 determined using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment in Available for Sale Security	$ 1,098	$ 1,098	$ —	$ —
Liability for Roll-Over options	$ 141	$ —	$ —	$ 141

For other instruments, the estimated fair value has been determined by the Company using available market information; however, considerable judgment is required in interpreting market data to develop these estimates. The methods and assumptions used to estimate the fair value of each class of financial instruments is as set forth below:

- *Accounts receivable and accounts payable*: The carrying amounts of these items are a reasonable estimate of their fair values at December 31, 2011 and September 30, 2012 based on the short-term nature of these items.
- *Borrowings under the Senior Secured Notes due 2017*—Borrowings under the Senior Secured Notes due 2017 have a fixed rate. The Company intends to carry the Senior Secured Notes until their maturity. At September 30, 2012, the fair value of the Senior Secured Notes due 2017, which is Level 2 in the fair value hierarchy, was approximately 104% or $416 million compared to their carrying value of $400 million.
- *Borrowings under the Senior Subordinated Notes due 2017*—Borrowings under the Senior Subordinated Notes due 2017 have a fixed rate. The Company intends to carry the Senior Subordinated Notes until their maturity. At September 30, 2012 the fair value of the Senior Subordinated Notes due 2017, which is Level 2 in the fair value hierarchy, was approximately 86% or $270.9 million compared to their carrying value of $315 million.

12. Contingencies

The Company is subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Product liability claims or product recalls with respect to the Company's components or the end-products of the Company's customers into which the Company's components are incorporated, could require the Company to pay significant damages or to spend significant time and money in litigation or responding to investigations or requests for information. Expenditures on litigation or damages, to the extent not covered by insurance, and declines in revenue could impair the Company's earnings and the Company's financial condition. There is no recall or litigation pending or, to the knowledge of the Company, threatened, that the Company expects to have a material effect on the Company's consolidated financial position, results of operations or cash flow.

13. Environmental matters

The Pennsylvania Department of Environmental Protection ("DEP") has filed a petition for review with the U.S. Court of Appeals for the District of Columbia Circuit challenging recent amendments to the U.S. Environmental Protection Agency ("EPA") National Air Emissions Standards for hazardous air pollutants from halogenated solvent cleaning operations. These revised standards exempt three industry sectors (aerospace, narrow tube manufacturers and facilities that use continuous web-cleaning and halogenated solvent cleaning machines) from facility emission limits for Trichloroethylene ("TCE") and other degreaser emissions. The EPA has agreed to reconsider the exemption. The Company's Collegeville facility meets current EPA control standards for TCE emissions and is exempt from the new lower TCE emission limit since the Company manufactures narrow tubes. As part of efforts to lower TCE emissions, the Company has begun to implement a process that will reduce the Company's TCE emissions generated by its Collegeville facility. However, this process will not reduce TCE emissions to the levels required should a new standard become law.

At each of December 31, 2011 and September 30, 2012, the Company maintained a reserve for environmental liabilities of approximately $1.8 million and $1.7 million, respectively.

14. Supplemental guarantor condensed consolidating financial statements

In connection with the Company's borrowing arrangements (collectively the "Notes"), all of its domestic subsidiaries (the "Subsidiary Guarantors") that are 100% owned, guaranteed on a joint and several, full and unconditional basis, the repayment by Accellent Inc. of such Notes. Foreign subsidiaries of Accellent Inc. (the "Non-Guarantor Subsidiaries") have not guaranteed the Notes.

The following tables present the unaudited condensed consolidating statements of operations and the unaudited condensed consolidating statements of comprehensive income (loss) for the three and nine months ended September 30, 2011 and 2012 the unaudited condensed consolidating balance sheets as of December 31, 2011 and September 30, 2012, and the unaudited condensed consolidating statements of cash flows for the nine months ended September 30, 2011 and 2012, of Accellent Inc. (the "Parent"), the Subsidiary Guarantors and the Non-Guarantor Subsidiaries.

Unaudited Condensed Consolidating Statements of Operations — Three months ended September 30, 2011 (in thousands):

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ —	$116,877	$ 10,309	$ (346)	$ 126,840
Cost of sales (exclusive of amortization)	—	88,588	6,770	(344)	95,014
Selling, general and administrative expenses	22	13,200	943	—	14,165
Research and development expenses	—	422	180	—	602
Amortization of intangible assets	3,735	—	—	—	3,735
Loss on disposal of assets	—	6	—	—	6
(Loss) income from continuing operations	(3,757)	14,661	2,416	(2)	13,318
Interest (expense) income, net	(17,207)	(26)	1	—	(17,232)
Other (expense) income, net	—	(244)	1,489	2	1,247
Equity in earnings (losses) of affiliates	16,565	3,202	—	(19,767)	—
Income from continuing operations before taxes	(4,399)	17,593	3,906	(19,767)	(2,667)
Provision for income taxes	—	(1,149)	(704)	—	(1,853)
Net loss from continuing operations	(4,399)	16,444	3,202	(19,767)	(4,520)
Net income (loss) from discontinued operations, net of tax	—	121	—	—	121
Net income (loss)	$ (4,399)	$ 16,565	$ 3,202	$ (19,767)	$ (4,399)

Unaudited Condensed Consolidating Statements of Operations —
Three months ended September 30, 2012 (in thousands):

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ —	$115,587	$ 10,939	$ (565)	$ 125,961
Cost of sales (exclusive of amortization)	—	85,248	7,567	(565)	92,250
Selling, general and administrative expenses	23	11,918	892	—	12,833
Research and development expenses	—	210	209	—	419
Restructuring expenses	—	714	—	—	714
Amortization of intangible assets	3,735	—	—	—	3,735
Loss (gain) on disposal of assets	—	(223)	2	—	(221)
(Loss) income from continuing operations	(3,758)	17,720	2,269	—	16,231
Interest (expense) income, net	(17,363)	656	(672)	—	(17,379)
Other (expense) income, net	—	320	272	—	592
Equity in earnings of affiliates	19,772	1,313	—	(21,085)	—
Income from continuing operations before taxes	(1,349)	20,009	1,869	(21,085)	(556)
Provision for income taxes	—	(554)	(556)	—	(1,110)
Net loss from continuing operations	(1,349)	19,455	1,313	(21,085)	(1,666)
Net (loss) income from discontinued operations, net of tax	(5,131)	317	—	—	(4,814)
Net (loss) income	$ (6,480)	$ 19,772	$ 1,313	$ (21,085)	$ (6,480)

Unaudited Condensed Consolidating Statements of Operations
—
Nine months ended September 30, 2011 (in thousands):

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ —	$356,602	$ 29,217	$ (1,289)	$ 384,530
Cost of sales (exclusive of amortization)	—	266,531	18,850	(1,325)	284,056
Selling, general and administrative expenses	68	39,950	2,659	—	42,677
Research and development expenses	—	1,367	714	—	2,081
Amortization of intangible assets	11,205	—	—	—	11,205
Loss on disposal of assets	—	54	(1)	—	53
(Loss) income from operations	(11,273)	48,700	6,995	36	44,458
Interest (expense) income, net	(51,588)	(75)	3	—	(51,660)
Other (expense) income, net	—	(574)	(793)	(36)	(1,403)
Equity in earnings of affiliates	51,302	4,765	—	(56,067)	—
Income from continuing operations before taxes	(11,559)	52,816	6,205	(56,067)	(8,605)
Provision for income taxes	—	(2,458)	(1,440)	—	(3,898)
Net loss from continuing operations	(11,559)	50,358	4,765	(56,067)	(12,503)
Net income (loss) from discontinued operations, net of tax	—	944	—	—	944
Net (loss) income	$(11,559)	$ 51,302	$ 4,765	$ (56,067)	$ (11,559)

Unaudited Condensed Consolidating Statements of Operations
—
Nine months ended September 30, 2012 (in thousands):

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ —	$346,842	$ 31,397	$ (1,713)	$ 376,526
Cost of sales (exclusive of amortization)	—	260,184	21,899	(1,713)	280,370
Selling, general and administrative expenses	69	38,702	2,731	—	41,502
Research and development expenses	—	707	657	—	1,364
Restructuring expenses	—	2,552	—	—	2,552
Amortization of intangible assets	11,205	—	—	—	11,205
(Gain) loss on disposal of assets	—	(264)	10	—	(254)
(Loss) income from continuing operations	(11,274)	44,961	6,100	—	39,787
Interest (expense) income, net	(51,812)	1,997	(2,064)	—	(51,879)
Other (expense) income, net	—	(1,154)	1,064	—	(90)

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Equity in earnings of affiliates	49,143	3,273	—	(52,416)	—
Income from continuing operations before taxes	(13,943)	49,077	5,100	(52,416)	(12,182)
Provision for income taxes	—	(1,406)	(1,827)	—	(3,233)
Net (loss) income from continuing operations	(13,943)	47,671	3,273	(52,416)	(15,415)
Net income (loss) from discontinued operations, net of tax	(5,131)	1,472	—	—	(3,659)
Net (loss) income	$ (19,074)	$ 49,143	$ 3,273	$ (52,416)	$ (19,074)

Unaudited Condensed Consolidating Balance Sheets
December 31, 2011 (in thousands):

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash	$ —	$ 32,627	$ 6,231	$ —	$ 38,858
Accounts receivable, net	—	52,073	3,014	(324)	54,763
Inventories	—	58,719	3,434	—	62,153
Assets held for sale, current portion	—	3,874	—	—	3,874
Prepaid expenses and other current assets	879	3,320	217	—	4,416
Total current assets	879	150,613	12,896	(324)	164,064
Property, plant and equipment, net	—	104,412	16,741	—	121,153
Long-term assets for held sale	10,411	5,839	—	—	16,250
Intercompany receivables, net	—	300,148	21,728	(321,876)	—
Investment in subsidiaries	493,405	42,612	—	(536,017)	—
Goodwill	619,443	—	—	—	619,443
Other intangible assets, net	149,687	—	—	—	149,687
Deferred financing costs and other assets, net	16,310	155	352	8	16,825
Total assets	$1,290,135	$603,779	$ 51,717	$(858,209)	$1,087,422
Current portion of long-term debt	$ —	$ 22	$ —	$ —	$ 22
Accounts payable	15	19,691	1,764	(435)	21,035
Accrued expenses and other current liabilities	19,517	21,556	4,932	119	46,124
Liabilities held for sale	—	1,908	—	—	1,908
Total current liabilities	19,532	43,177	6,696	(316)	69,089
Long-term debt	1,003,063	31,780	—	(321,876)	712,967
Other long-term liabilities	1,321	34,736	2,409	—	38,466
Total liabilities	1,023,916	109,693	9,105	(322,192)	820,522
Equity	266,219	494,086	42,612	(536,017)	266,900
Total liabilities and equity	$1,290,135	$603,779	$ 51,717	$(858,209)	$1,087,422

Unaudited Condensed Consolidating Balance Sheets
September 30, 2012 (in thousands):

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash	$ —	$ 44,550	$ 5,037	$ —	$ 49,587
Accounts receivable, net	—	51,685	4,809	(420)	56,074
Inventories	—	60,173	4,933	—	65,106
Assets held for sale, current portion	—	1,767	—	—	1,767
Prepaid expenses and other current assets	1,122	3,954	244	—	5,320
Total current assets	1,122	162,129	15,023	(420)	177,854
Property, plant and equipment, net	—	92,765	23,790	—	116,555
Long-term assets held for sale	5,280	739	—	—	6,019
Intercompany receivables, net	—	369,699	—	(369,699)	—
Investment in subsidiaries	543,588	8,839	—	(552,427)	—
Goodwill	619,443	—	—	—	619,443
Other intangible assets, net	138,482	—	—	—	138,482
Deferred financing costs and other assets, net	13,970	162	503	—	14,635
Total assets	$1,321,885	$634,333	$ 39,316	$(922,546)	$1,072,988

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current portion of long-term debt	$ —	$ 15	$ —	$ —	$ 15
Accounts payable	—	21,845	2,006	(420)	23,431
Liabilities held for sale	—	972	—	—	972
Accrued expenses and other current liabilities	18,765	20,264	6,410	—	45,439
Total current liabilities	18,765	43,096	8,416	(420)	69,857
Long-term debt	1,053,282	10,051	19,576	(369,699)	713,210
Other long-term liabilities	1,175	37,598	2,485	—	41,258
Total liabilities	1,073,222	90,745	30,477	(370,119)	824,325
Equity	248,663	543,588	8,839	(552,427)	248,663
Total liabilities and equity	$1,321,885	$634,333	$ 39,316	$(922,546)	$1,072,988

Unaudited Condensed Consolidating Statements of Comprehensive Income (Loss)
Three months ended September 30, 2011 (in thousands):

	Parent	Subsidiary Guarantors	Non-guarantor subsidiaries	Eliminations	Consolidated
Net income (loss)	$ (4,399)	$ 16,565	$ 3,202	$ (19,767)	$ (4,399)
Other comprehensive income (loss):					
Unrealized gain on available for sale security	1,155	—	—	—	1,155
Cumulative translation adjustment	(2,617)	(2,617)	(2,617)	5,234	(2,617)
Comprehensive income (loss)	$ (5,861)	$ 13,948	$ 585	$ (14,533)	$ (5,861)

Unaudited Condensed Consolidating Statements of Comprehensive Income (Loss)
Three months ended September 30, 2012 (in thousands):

	Parent	Subsidiary Guarantors	Non-guarantor subsidiaries	Eliminations	Consolidated
Net income (loss)	$ (6,480)	$ 19,772	$ 1,313	$ (21,085)	$ (6,480)
Other comprehensive income (loss):					
Unrealized loss on available for sale security	(250)	—	—	—	(250)
Cumulative translation adjustment	344	344	344	(688)	344
Comprehensive income (loss)	$ (6,386)	$ 20,116	$ 1,657	$ (21,773)	$ (6,386)

Unaudited Condensed Consolidating Statements of Comprehensive Income (Loss)
Nine months ended September 30, 2011 (in thousands):

	Parent	Subsidiary Guarantors	Non-guarantor subsidiaries	Eliminations	Consolidated
Net income (loss)	$ (11,559)	$ 51,302	$ 4,765	$ (56,067)	$ (11,559)
Other comprehensive income (loss):					
Unrealized gain on available for sale security	1,155	—	—	—	1,155
Cumulative translation adjustment	578	578	578	(1,156)	578
Comprehensive income (loss)	$ (9,826)	$ 51,880	$ 5,343	$ (57,223)	$ (9,826)

Unaudited Condensed Consolidating Statements of Comprehensive Income (Loss)
Nine months ended September 30, 2012 (in thousands):

	Parent	Subsidiary Guarantors	Non-guarantor subsidiaries	Eliminations	Consolidated
Net income (loss)	$ (19,074)	$ 49,143	$ 3,273	$ (52,416)	$ (19,074)
Other comprehensive income (loss):					
Unrealized loss on available for sale security	(57)	—	—	—	(57)
Cumulative translation adjustment	358	358	358	(716)	358
Comprehensive income (loss)	$ (18,773)	$ 49,501	$ 3,631	$ (53,132)	$ (18,773)

Unaudited Condensed Consolidating Statements of Cash Flows — Nine months ended September 30, 2011 (in thousands):

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash (used in) provided by operating activities of continuing operations	$(51,281)	$ 49,636	$ 7,373	$ —	$ 5,728
Net cash (used in) provided by operating activities of discontinued operations	—	1,795	—	—	1,795
Net cash (used in) provided by operating activities	(51,281)	51,431	7,373	—	7,523
Cash flows from investing activities:					
Capital expenditures	467	(20,219)	(5,054)	—	(24,806)
Net book value of transferred equipment	—	401	(401)	—	—
Proceeds from disposition of assets	—	166	—	—	166
Net cash used in investing activities of continuing operations	467	(19,652)	(5,455)	—	(24,640)
Net cash used in investing activities of discontinued operations	—	(175)	—	—	(175)
Net cash used in investing activities	467	(19,827)	(5,455)	—	(24,815)
Cash flows from financing activities:					
Repayments of long-term debt and capital lease obligations	(12)	(1)	—	—	(13)
Intercompany receipts (advances)	50,757	(50,895)	138	—	—
Proceeds from sale of parent company stock	50	—	—	—	50
Proceeds from exercise of options in parent company stock	19	—	—	—	19
Payment of debt issuance costs	—	(620)	—	—	(620)
Cash flows provided by (used in) financing activities	50,814	(51,516)	138	—	(564)
Effect of exchange rate changes in cash	—	7	(46)	—	(39)
Net increase (decrease) in cash	—	(19,905)	2,010	—	(17,895)
Cash, beginning of period	—	38,392	2,395	—	40,787
Cash, end of period	$ —	$ 18,487	$ 4,405	$ —	$ 22,892

Unaudited Condensed Consolidating Statements of Cash Flows —
Nine months ended September 30, 2012 (in thousands):

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash (used in) provided by operating activities of continuing operations	$(49,930)	$ 59,112	$ 4,048	$ —	$ 13,230
Net cash (used in) provided by operating activities of discontinued operations	—	2,922	—	—	2,922
Net cash (used in) provided by operating activities	(49,930)	62,034	4,048	—	16,152
Cash flows from investing activities:					
Capital expenditures	—	(4,552)	(8,628)	—	(13,180)
Proceeds from sale of equipment	—	264	—	—	264
Net cash used in investing activities of continuing operations	—	(4,288)	(8,628)	—	12,916
Net cash used in investing activities of discontinued operations	—	7,484	—	—	7,484
Net cash used in investing activities	—	3,196	(8,628)	—	(5,432)
Cash flows from financing activities:					
Repayments of long-term debt and capital lease obligations	—	(14)	(2)	—	(16)
Intercompany receipts (advances)	49,973	(53,379)	3,406	—	—
Repurchase of parent company stock	(43)	—	—	—	(43)
Cash flows provided by (used in) financing activities	49,930	(53,393)	3,404	—	(59)
Effect of exchange rate changes in cash	—	86	(18)	—	68
Net increase (decrease) in cash	—	11,923	(1,194)	—	10,729
Cash, beginning of period	—	32,627	6,231	—	38,858
Cash, end of period	$ —	$ 44,550	$ 5,037	$ —	$ 49,587

15. Changes in Stockholder's Equity

The following table summarizes the changes in stockholders' equity during the nine months ended September 30, 2012:

	Common Stock		Additional Paid-In Capital	Accumulated other comprehensive income (loss)	Accumulated (deficit)	Total Equity
	Shares	Amount				
Balance, January 1, 2012	1,000	$ —	$638,445	$ (1,266)	$ (370,279)	$266,900
Comprehensive loss:						
Net loss		—	—	—	(19,074)	(19,074)
Unrealized (loss) on available for sale security		—	—	(57)	—	(57)
Cumulative translation adjustment		—	—	358	—	358
Total comprehensive loss						(18,773)
Stock-based compensation and other		—	536	—	—	536
Balance at September 30, 2012	1,000	$ —	$638,981	$ (965)	$ (389,353)	$248,663

16. Subsequent Events

The Company has evaluated the period from September 30, 2012, the date of the consolidated financial statements, through the date of the issuance and filing of the consolidated financial statements, and has determined that no material subsequent events have occurred that would affect the information presented in these consolidated financial statements or require additional disclosure.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Some of the information in this Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this Form 10-Q, including, without limitation, certain statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations," may constitute forward-looking statements. In some cases you can identify these "forward-looking statements" by words like "may," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of those words and other comparable words. These forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those indicated in these statements as a result of certain factors as more fully discussed under the heading "Risk Factors" contained in our annual report on Form 10-K filed on March 29, 2012 with the Securities and Exchange Commission (File No. 333-130470) for the Company's fiscal year ended December 31, 2011. The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included herein.

We undertake no obligation to update publicly or publicly revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Unless the context otherwise requires, references in this Form 10-Q to "Accellent," "we," "our" and "us" refer to Accellent Inc. and its consolidated subsidiaries.

Overview

We believe that we are a leading provider of outsourced precision manufacturing services in our target markets within the medical device industry. We offer our customers design and engineering, precision component manufacturing, device assembly and supply chain management services. We have extensive resources focused on providing our customers with reliable, high quality, cost-efficient, integrated outsourced solutions. Based on discussions with our customers, we believe we often become the sole supplier of manufacturing and engineering services for the products we provide to our customers.

We primarily focus on leading companies in large and growing markets within the medical device industry including cardiology, endoscopy, and orthopaedics. Our customers include many of the leading medical device companies including Abbott Laboratories, Boston Scientific, Johnson & Johnson, Medtronic, Smith & Nephew, St. Jude Medical, Stryker and Zimmer. While sales are aggregated by us to the ultimate parent of a customer, we typically generate diversified revenue streams within these large customers across separate customer divisions and multiple products.

During the three months ended September 30, 2011 and 2012, our ten largest customers accounted for approximately 65% and 62% of our consolidated net sales, respectively. During the nine months ended September 30, 2011 and 2012, our ten largest customers accounted for approximately 78% and 64% of our consolidated net sales, respectively. Three customers each accounted for 10% or more of our consolidated net sales during the three and nine months ended September 30, 2011 and 2012. We expect net sales from our largest customers to continue to constitute a significant portion of our net sales in the future.

The actual percentage of net sales derived from each customer whose sales represented 10% or more of the Company's consolidated net sales were as follows for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2012	2011	2012
Customer A	17%	15%	21%	16%
Customer B	16%	13%	17%	13%
Customer C	10%	11%	11%	11%

Recent Developments

Discontinued Operations

As part of the Company's continuing efforts to better focus its efforts and align with its customers, the Company has discontinued certain businesses. The Company has accounted for these businesses as discontinued operations and, accordingly, has presented the results of operations and related cash flows as discontinued operations for all periods presented. The assets and liabilities of these businesses have been presented separately, and are reflected within assets and liabilities held for sale in the accompanying unaudited condensed consolidated balance sheets as of December 31, 2011 and September 30, 2012.

The Company recorded the following amounts as net income (loss) on discontinued operations during the periods ended:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2012
	(In thousands)			
Loss on disposition of discontinued operations	$ —	$ (5,131)	$ —	$ (5,131)
Income from discontinued operations	121	317	944	1,472
Net income (loss) from discontinued operations, net of tax	$ 121	$ (4,814)	$ 944	$ (3,659)

The Company recorded a pre-tax gain of approximately $54 thousand in the second quarter of 2012 associated with this sale of the Company's facility in Pittsburgh, Pennsylvania. During the three months ended September 30, 2012, the Company finalized the accounting for the disposition and determined that goodwill amounting to $5.1 million should have been attributed to the assets of the facility in determining the gain or loss on disposition and is included within Net income (loss) from discontinued operations, net of tax in the accompanying unaudited condensed consolidated statement of operations for the three and nine months ended September 30, 2012.

Results of Operations

The following table sets forth percentages derived from the unaudited condensed consolidated statements of continuing operations for the three and nine months ended September 30, 2011 and 2012, presented as a percentage of net sales.

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012
STATEMENT OF OPERATIONS DATA:				
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	74.9	73.2	73.9	74.5
Gross profit	25.1	26.8	26.1	25.5
Selling, general and administrative expenses	11.2	10.2	11.1	11.0
Research and development expenses	0.5	0.3	0.5	0.4
Restructuring expenses and other	0.0	0.4	0.0	0.6
Amortization of intangible assets	2.9	3.0	2.9	3.0
Income from continuing operations	10.5%	12.9%	11.6%	10.5%

Three Months Ended September 30, 2012 Compared to Three Months Ended September 30, 2011

Net Sales

Net sales for the three months ended September 30, 2012 were $126.0 million, a decrease of $0.8 million, or 0.7%, compared to net sales of $126.8 million for the three months ended September 30, 2011. Net sales were impacted by price decreases of $2.3 million, $1.4 million related to lower foreign currency values and $1.6 million related to decreased sales of platinum resulting primarily from passing through to our customers, changes in precious metal prices which do not benefit gross profit, offset by $4.5 million related to new programs.

Cost of goods sold and gross profit

Cost of goods sold was $92.3 million for the three months ended September 30, 2012 compared to $95.0 million for the three months ended September 30, 2011, a decrease of $2.7 million, or 2.9%. Cost of goods sold reflects our variable manufacturing and fixed overhead costs necessary to produce product for our customers. The decrease in cost of goods sold is attributable to lower material costs resulting from the sales decrease related to platinum totaling approximately $1.6 million, decreases in material costs totaling approximately $2.8 million related to lower raw material procurement costs primarily associated with lower sales, and $0.7 million resulting from lower variable manufacturing costs attributable primarily to lower sales volume, all of which were offset by increased fixed manufacturing costs due to lower utilization of our fixed cost infrastructure with lower sales totaling approximately $2.4 million.

Gross profit was $33.7 million, or 26.8% of net sales, for the three months ended September 30, 2012 compared to $31.8 million, or 25.1% of net sales for the three months ended September 30, 2011. As a percent of sales, gross profit increased 1.7% during the three months ended September 30, 2012 compared to the three months ended September 30, 2011 primarily due to lower raw material costs and lower variable manufacturing costs, offset by lower leverage of our fixed cost infrastructure.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, or SG&A, were $12.8 million for the three months ended September 30, 2012 compared to $14.2 million for the three months ended September 30, 2011. The $1.4 million decrease in SG&A expenses was attributable to lower labor costs primarily related to management incentive plans totaling $0.9 million, lower employee benefit costs of $0.2 million, lower non-cash compensation costs of $0.1 million and lower travel and related costs of $0.2 million.

Research and Development Expenses

Research and development, or R&D, expenses for the three months ended September 30, 2012 were $0.4 million, $0.2 million lower than the $0.6 million in the three months ended September 30, 2011. R&D expenses represent costs related to the development of new or improved, manufacturing technologies and the decline of $0.2 million is attributable primarily to lower headcount during the three months ended September 30, 2012 compared to the three months ended September 30, 2011.

Interest Expense, net

Interest expense, net, was $17.4 million and $17.2 million for each of the three month periods ended September 30, 2012 and September 30, 2011, respectively.

Other (Expense) Income, net

Included in other (expense) income, net are foreign currency gains and losses. During the three months ended September 30, 2012, we recorded a currency gain of approximately $0.6 million compared to a loss of approximately $1.2 million during the three months ended September 30, 2011. The increase is due to changes in foreign currency exchange rates during the three months ended September 30, 2012 compared to the three months ended September 30, 2011.

Income Tax Expense

Income tax expense for the three months ended September 30, 2012 was $1.1 million and included $0.7 million of deferred income tax expense for differences in the book and tax treatment of goodwill and $0.4 million in state and foreign income taxes. Income tax expense for the three months ended September 30, 2011 was $1.9 million and included approximately $0.7 million of deferred income tax expense for differences in the book and tax treatment of goodwill and an income tax provision of approximately $1.2 million in state and foreign income taxes. The change in income tax expense during the three months ended September 30, 2012 compared to the three months ended September 30, 2011 is attributable to lower profitability in the Company's foreign operations during the three months ended September 30, 2012.

Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011

Net Sales

Net sales for the nine months ended September 30, 2012 were $376.5 million, a decrease of $8.0 million, or 2.1%, compared to net sales of $384.5 million for the nine months ended September 30, 2011. Net sales were impacted by price decreases of $5.2 million, $3.2 million related to lower foreign currency rates and $2.5 million related to decreased sales of platinum resulting primarily from passing through to our customers, changes in precious metal prices which do not benefit gross profit, offset by volume increases related to new programs of $2.9 million.

Cost of goods sold and gross profit

Cost of goods sold was $280.4 million for the nine months ended September 30, 2012 compared to $284.1 million for the nine months ended September 30, 2011, a decrease of $3.7 million, or 1.3%. Cost of goods sold reflects our variable manufacturing and fixed overhead costs necessary to produce product for our customers. The decrease in cost of goods sold is primarily attributable to decreased material costs resulting from lower sales of platinum totaling approximately $2.5 million, decreases in material costs totaling approximately $2.4 million resulting primarily from lower sales volume, lower variable manufacturing costs totaling approximately $4.0 million primarily attributable to lower sales volume, all of which were offset by higher fixed costs resulting from lower utilization of our fixed cost infrastructure totaling approximately $5.2 million.

Gross profit was $96.2 million, or 25.5% of net sales, for the nine months ended September 30, 2012 compared to $100.5 million, or 26.1% of net sales for the nine months ended September 30, 2011. As a percent of sales, gross profit declined 0.6% during the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, or SG&A, were $41.5 million for the nine months ended September 30, 2012 compared to $42.7 million for the nine months ended September 30, 2011. The $1.2 million decrease in SG&A expenses was primarily attributable to lower costs of $1.8 million related to management incentive plans and stock compensation costs, lower travel and related costs of $0.4 million, and lower recruiting and relocation costs of $0.4 million, all of which were offset by increased salaries of $0.1 million, higher one time contractually obligated severance charges recorded during the nine months ended September 30, 2012 totaling approximately $0.5 million, and higher costs related to professional fees and outside services of $0.8 million during the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011.

Research and Development Expenses

Research and development, or R&D, expenses for the nine months ended September 30, 2012 were $1.4 million, $0.7 million lower than the $2.1 million in the nine months ended September 30, 2011. R&D expenses represent costs related to the development of new or improved, manufacturing technologies and the decline of $0.7 million is attributable primarily to lower headcount during the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011.

Interest Expense, net

Interest expense, net, was $51.9 million and $51.7 million for each of the nine month periods ended September 30, 2012 and September 30, 2011, respectively.

Other (Expense) Income, net

Included in other (expense) income, net are foreign currency gains and losses. During the nine months ended September 30, 2012, we recorded a currency loss of approximately $0.1 million compared to a gain of approximately $1.4 million during the nine months ended September 30, 2011. This difference is due to changes in foreign currency exchange rates during the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011.

Income Tax Expense

Income tax expense for the nine months ended September 30, 2012 was $3.2 million and included $2.2 million of deferred income tax expense for differences in the book and tax treatment of goodwill and $1.0 million in state and foreign income taxes. Income tax expense for the nine months ended September 30, 2011 was $3.9 million and included approximately $2.2 million of deferred income tax expense for differences in the book and tax treatment of goodwill and approximately $1.7 million in state and foreign income taxes. The change in income tax expense during the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011 is attributable to higher profitability in the Company's foreign operations offset by the effect of changes in the Company's entity structure that became effective in January of 2012.

Liquidity and Capital Resources

Our principal source of liquidity is our cash flow from continuing operations and borrowings available to us under our $75 million ABL Revolver. At September 30, 2012, we had $12.5 million of letters of credit outstanding and no outstanding loans under the ABL Revolver. As of September 30, 2012, our total indebtedness amounted to $715.0 million.

Cash provided by continuing operations was $13.2 million during the nine months ended September 30, 2012 compared to $5.7 million during the nine months ended September 30, 2011, an improvement of $7.5 million. The increase in cash used in continuing operations is primarily a result of working capital improvements offset by a higher net loss. Our net cash invested in working capital was $8.1 million lower while our net loss was $7.5 million higher during the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011. In addition, aggregate adjustments for non-cash items positively impacted operating cash flows by $2.3 million primarily due to an increase in depreciation costs and restructuring charges offset by lower deferred income tax expense and stock compensation.

Cash used in continuing operations investing activities was $12.9 million during the nine months ended September 30, 2012 compared to $24.6 million during the nine months ended September 30, 2011. The decrease in cash used for continuing operations investing activities of $11.7 million is primarily attributable to lower capital asset acquisitions of $11.6 million during the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011 as we completed the build-out of our facility in Penang, Malaysia during 2011.

During the nine months ended September 30, 2012, cash used in continuing operations financing activities was approximately $0.1 million compared to $0.6 million during the nine months ended September 30, 2011.

Our planned capital expenditures for 2012 include investments related to new business opportunities, upgrades of our existing equipment infrastructure and information technology enhancements. We expect that these investments will be financed from cash flows from continuing operations.

As of September 30, 2012, we have a liability of $1.7 million, of which the Company expects to pay $0.1 million during 2012, for environmental clean-up matters. The United States Environmental Protection Agency, or EPA, issued an Administrative Consent Order in July 1988 requiring UTI, our subsidiary, to study and, if necessary, remediate the groundwater and soil beneath and around its plant in Collegeville, Pennsylvania. Since that time, UTI has implemented and is operating successfully a TCE contamination well pumping treatment system approved by the EPA. We expect to pay approximately $0.1 million of ongoing annual operating costs during each of the next five years relating to this remediation effort. Our environmental accrual at September 30, 2012 includes $1.5 million related to our Collegeville location. The remaining environmental accrual, related to our other locations, was $0.2 million at September 30, 2012.

Our ability to make payments on our indebtedness and to fund planned capital expenditures, other expenditures and long-term liabilities, and necessary working capital will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Based on our current level of operations, we believe our cash flow from continuing operations and available borrowings under the ABL Revolver will be adequate to meet our liquidity requirements for the next 12 months. However, no assurance can be given that this will be the case.

Indebtedness

At September 30, 2012, our aggregate debt was approximately $715.0 million substantially all of which is due in 2017. Our debt at September 30, 2012 consisted of our senior secured notes bearing interest at 8.375% (the “Senior Secured Notes”) and our senior subordinated notes that bear interest at 10% (the “Senior Subordinated Notes”). In addition, we have a $75 million asset based revolving credit facility. Our revolving credit facility afforded us borrowing capacity of $29.3 million at September 30, 2012. No amounts have been drawn under the facility since it was put in place in January 2010. As of September 30, 2012, we were in compliance with the covenants of our debt agreements.

Other Key Indicators of Financial Condition and Operating Performance

EBITDA and Adjusted EBITDA presented in this Quarterly Report on Form 10-Q are supplemental measures of our performance that are not required by, or presented in accordance with generally accepted accounting principles in the United States, or GAAP. EBITDA and Adjusted EBITDA are not measures of our financial performance under GAAP and should not be considered as alternatives to net loss or any other performance measures derived in accordance with GAAP, or as an alternative to cash flow from operating activities as a measure of our liquidity.

EBITDA represents net loss before net interest expense, income tax expense, depreciation and amortization. Adjusted EBITDA is defined as EBITDA further adjusted to give effect to unusual items, non-cash items and other adjustments, all of which are defined in the indentures governing the Senior Subordinated Notes and the Senior Secured Notes and the credit agreement governing the ABL Revolver. We believe that the inclusion of EBITDA and Adjusted EBITDA in this Quarterly Report on Form 10-Q is appropriate to provide additional information to investors regarding certain thresholds based on Adjusted EBITDA that we may be required to meet in certain cases that are included in the indentures governing the Senior Subordinated Notes and the Senior Secured Notes and the credit agreement governing the ABL Revolver. There are no material differences in the manner in which EBITDA and Adjusted EBITDA were determined in the past under our credit agreement, as amended.

We also present EBITDA because we consider it an important supplemental measure of our performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of high yield issuers, many of which present EBITDA when reporting their results. We believe EBITDA facilitates operating performance comparison from period to period and company to company by backing out differences caused by variations in capital structures, tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses) and the age and book depreciation of facilities and equipment (affecting relative depreciation expense).

In determining Adjusted EBITDA, as permitted by the terms of our indebtedness, we eliminate the impact of a number of items. For the reasons indicated herein, you are encouraged to evaluate each adjustment and whether you consider it appropriate. In addition, in evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses similar to the adjustments in the presentation of Adjusted EBITDA. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

EBITDA and Adjusted EBITDA have limitations as analytical tools, and you should not consider them in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- they do not reflect our cash expenditures for capital expenditure or contractual commitments;
- they do not reflect changes in, or cash requirements for, our working capital requirements;
- they do not reflect interest expense, or the cash requirements necessary to service interest or principal payments on our indebtedness;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect cash requirements for such replacements;
- Adjusted EBITDA does not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of our ongoing operations, as discussed in our presentation of “Adjusted EBITDA” in this report; and
- other companies, including other companies in our industry, may calculate these measures differently than we do, limiting their usefulness as a comparative measure.

Because of these limitations, EBITDA and Adjusted EBITDA should not be considered as measures of discretionary cash available to us to invest in the growth of our business or reduce our indebtedness. For these purposes, we rely on our GAAP results.

For more information, see our unaudited condensed consolidated financial statements and the notes to those statements included elsewhere in this Quarterly Report on Form 10-Q.

The following table sets forth a reconciliation of net loss to EBITDA for the periods indicated:

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012
RECONCILIATION OF NET LOSS TO EBITDA:				
Net loss	$ (4,399)	$ (6,480)	$ (11,559)	$ (19,074)
Interest expense, net	17,234	17,379	51,662	51,880
Provision for income taxes	1,853	1,110	3,898	3,233
Depreciation and amortization	9,757	10,189	28,804	30,319
EBITDA	$ 24,445	$ 22,198	$ 72,805	$ 66,358

The following table sets forth a reconciliation of EBITDA to Adjusted EBITDA for the periods indicated:

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012
EBITDA	$ 24,445	$ 22,198	$ 72,805	$ 66,358
Adjustments:				
Stock-based compensation – employees	271	182	761	364
Stock-based compensation - non-employees	23	23	68	68
Employee severance and relocation	492	500	1,306	1,870
(Income) loss from discontinued operations, net	(121)	4,814	(944)	3,659
Restructuring expenses	—	714	—	2,552
Executive recruiting costs	43	—	307	—
Plant closure costs	—	195	—	518
Currency loss	(1,233)	(569)	1,474	152
(Gain) loss on disposal of assets	6	(221)	52	(255)
Other taxes	50	80	297	395
Management fees to stockholder	319	335	957	1,005
Adjusted EBITDA	$ 24,295	$ 28,251	$ 77,083	$ 76,686

The differences between Adjusted EBITDA and cash flows used in operating activities are summarized as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012
Adjusted EBITDA	$ 24,295	$ 28,251	$ 77,083	$ 76,686
Net changes in operating assets and liabilities	4,552	(3,698)	(15,363)	(7,250)
Interest expense, net	(17,232)	(17,378)	(51,660)	(51,879)
Cash payment of restructuring charges	—	(36)	—	(842)
Deferred tax provision	38	620	3,017	2,099
Income tax (expense)	(1,853)	(1,110)	(3,898)	(3,233)
Amortization of debt discount and non-cash interest	738	796	2,187	2,329
Other items, net	3	487	(3,843)	(1,758)
Net cash provided by (used in) operating activities	$ 10,541	$ 7,932	$ 7,523	$ 16,152
Net cash (used in) provided by investing activities	$ (8,205)	$ (5,507)	$ (24,815)	$ (5,432)
Net cash used in financing activities	$ (70)	$ (5)	$ (564)	$ (59)

Off-Balance Sheet Arrangements

We do not have any "off-balance sheet arrangements" (as such term is defined in Item 303 of Regulation S-K) that are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations and Commitments

The following table sets forth our long-term contractual obligations as of September 30, 2012 (in thousands):

	Payment due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Senior Secured Notes (1)	$ 550,750	$ 33,500	$ 67,000	$450,250	$ —
Senior Subordinated Notes (1)	488,250	31,500	63,000	63,000	330,750
Capital leases (1)	26	15	11	—	—
Operating leases	19,703	5,975	8,500	4,341	887
Purchase obligations (2)	45,533	45,533	—	—	—
Other obligations (3)	42,913	1,655	1,263	1,130	38,865
Total	$1,147,175	$118,178	$139,774	$518,721	$370,502

(1) Includes interest and principal payments. Interest is determined using the instrument's fixed rate of interest.
(2) Purchase obligations consist of commitments for materials, supplies, machinery and equipment.
(3) Other obligations include share based payment obligations of $0.1 million payable to employees and $1.1 million payable to non-employees, environmental remediation obligations of $1.6 million, accrued compensation and pension benefits of $4.1 million, deferred income taxes of $33.2 million, accrued restructuring fees of $2.1 million and other obligations of $0.7 million.

Critical Accounting Policies

Our unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and rules and regulations of the Securities and Exchange Commission for interim financial reporting. The preparation of our financial statements and related disclosures requires us to make estimates, assumptions and judgments that affect the reported amount of assets, liabilities, revenue, costs and expenses, and related disclosures. We base our estimates and assumptions on historical experience and other factors that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions and conditions. Our most critical accounting policies are listed below:

- Revenue recognition;
- Allowance for doubtful accounts;
- Valuation of goodwill, trade names and trademarks;
- Valuation of long-lived assets;
- Self Insurance reserves;
- Environmental reserves;
- Share Based Payments; and
- Income Taxes

During the nine months ended September 30, 2012, there were no significant changes in our critical accounting policies or estimates.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

During the nine months ended September 30, 2012, there were no significant changes to our quantitative and qualitative disclosures about market risk. Please refer to Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk included in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission on March 29, 2012 for a more complete discussion of the market risks we encounter.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The certifications of our principal executive officer and principal financial officer required in accordance with Rule 13a-15(b) and Rule 15d-15 under the Securities Exchange Act of 1934 and Section 302 of the Sarbanes-Oxley Act of 2002 are attached as exhibits to this Quarterly Report on Form 10-Q. The disclosures set forth in this Item 4 contain information concerning the evaluation of our disclosure controls and procedures, and changes in internal control over financial reporting, referred to in paragraph 4 of the certifications. Those certifications should be read in conjunction with this Item 4 for a more complete understanding of the matters covered by the certifications.

Evaluation of Disclosure Controls and Procedures: Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2012. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2012, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in internal control over financial reporting: There were no changes in our internal controls over financial reporting during the nine months ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

The Pennsylvania Department of Environmental Protection ("DEP") has filed a petition for review with the U.S. Court of Appeals for the District of Columbia Circuit challenging recent amendments to the U.S. Environmental Protection Agency ("EPA") National Air Emissions Standards for hazardous air pollutants from halogenated solvent cleaning operations. These revised standards exempt three industry sectors (aerospace, narrow tube manufacturers and facilities that use continuous web-cleaning and halogenated solvent cleaning machines) from facility emission limits for TCE and other degreaser emissions. The EPA has agreed to reconsider the exemption. Our Collegeville facility meets current EPA control standards for TCE emissions and is exempt from the new lower TCE emission limit since we manufacture narrow tubes. Nevertheless, we have implemented systems and controls that limit TCE emissions generated by our Collegeville facility. However, these systems and controls will not reduce our TCE emissions to the levels expected to be required should a new standard become law.

We are subject to various other legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these other claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

For a discussion of our potential risks or uncertainties, please see Part I, Item 1A, of Accellent Inc.'s 2011 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 29, 2012. There have been no material changes to the risk factors disclosed in Part I, Item 1A, of Accellent Inc.'s 2011 Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

No unregistered equity securities of the registrant were sold and no repurchases of equity securities were made during the nine months ended September 30, 2012.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibits
31.1*	Rule 13a-14(a) Certification of Principal Executive Officer
31.2*	Rule 13a-14(a) Certification of Principal Financial Officer
32.1*	Section 1350 Certification of Principal Executive Officer
32.2*	Section 1350 Certification of Principal Financial Officer
Exhibit 101.INS	XBRL Instance Document.
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document.
Exhibit 101.CAL	XBRL Taxonomy Calculation Linkbase Document.
Exhibit 101.LAB	XBRL Taxonomy Label Linkbase Document.
Exhibit 101.PRE	XBRL Taxonomy Presentation Linkbase Document
Exhibit 101.DEF	Taxonomy Definition Linkbase Document

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Accellent Inc.
November 14, 2012	By: /s/ Donald J. Spence Donald J. Spence *President and Chief Executive Officer* *(Principal Executive Officer)*
	Accellent Inc.
November 14, 2012	By: /s/ Jeremy A. Friedman Jeremy A. Friedman *Chief Financial Officer* *(Principal Financial Officer)*

EXHIBIT INDEX

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* Filed herewith.

Exhibit 31.1

CERTIFICATIONS

I, Donald J. Spence certify that:

1. I have reviewed this quarterly report on Form 10-Q of Accellent Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and I5d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2012

/s/ Donald J. Spence

Donald J. Spence
Principal Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Jeremy A. Friedman certify that:

1. I have reviewed this quarterly report on Form 10-Q of Accellent Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2012

/s/ Jeremy A. Friedman
Jeremy A. Friedman
Principal Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Accellent Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Donald J. Spence, Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to ray knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2012

/s/ Donald J. Spence
Donald J. Spence
Principal Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Accellent Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jeremy A. Friedman, Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2012

/s/ Jeremy A. Friedman
Jeremy A. Friedman
Principal Financial Officer