GREATBATCH, INC.
Form 10-K
February 26, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For The Fiscal Year Ended December 28, 2007

Commission File Number 1-16137

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

Delaware	16-1531026
(State of Incorporation)	(I.R.S. Employer Identification No.)

9645 Wehrle Drive
Clarence, New York 14031
(Address of principal executive offices)

(716) 759-5600
(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class:	Name of Each Exchange on Which Registered:
Common Stock, Par Value $.001 Per Share	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]	Accelerated filer [X]
Non-accelerated filer [ ]	Smaller reporting company [ ]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

The aggregate market value of common stock of Greatbatch, Inc. held by nonaffiliates as of June 29, 2007, based on the last sale price of $32.40, as reported on the New York Stock Exchange: $638.0 million. Solely for the purpose of this calculation, shares held by directors and officers and 10 percent shareholders of the Registrant have been excluded. Such exclusion should not be deemed a determination by or an admission by the Registrant that these individuals are, in fact, affiliates of the Registrant.

Shares of common stock outstanding on February 26, 2008: 22,588,219

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, in whole or in part, are specifically incorporated by reference in the indicated part of the Company's Proxy Statement:

Document	Part
Proxy Statement for the 2008 Annual Meeting of Stockholders	Part III, Item 10 "Directors, Executive Officers and Corporate Governance" Part III, Item 11 "Executive Compensation" Part III, Item 12 "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" Part III, Item 13 "Certain Relationships and Related Transactions, and Director Independence" Part III, Item 14 "Principal Accounting Fees and Services"

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PART I

ITEM 1. BUSINESS

OVERVIEW

Greatbatch, Inc. is a leading developer and manufacturer of critical products used in medical devices for the cardiac rhythm management, neurostimulation, vascular, orthopedic and interventional radiology markets. Additionally, Greatbatch, Inc. is a world leader in the design, manufacture and distribution of electrochemical cells, battery packs and wireless sensors for demanding applications such as oil and gas exploration, pipeline inspection, military, asset tracking, oceanography, external medical and seismic surveying. When used in this report, the terms "we," "us," "our" and the "Company" mean Greatbatch, Inc. and its subsidiaries. We believe that our proprietary technology, close customer relationships, multiple product offerings, market leadership and dedication to quality provide us with competitive advantages and create a barrier to entry for potential market entrants.

The Company is a Delaware corporation that was incorporated in 1997 and since that time has completed the following acquisitions:

Acquisition date	Acquired company	Business at time of acquisition
July 1997	Wilson Greatbatch Ltd. ("WGL")	Founded in 1970, the company designed and manufactured batteries for implantable medical devices ("IMD") and commercial applications including oil and gas, aerospace, and oceanographic.
August 1998	Hittman Materials and Medical Components, Inc. ("Hittman")	Founded in 1962, the company designed and manufactured ceramic and glass feedthroughs and specialized porous coatings for electrodes used in IMDs.
August 2000	Battery Engineering, Inc. ("BEI")	Founded in 1983, the company designed and manufactured high-energy density batteries for industrial, commercial, military and medical applications.
June 2001	Sierra-KD Components division of Maxwell Technologies, Inc. ("Sierra")	Founded in 1986, the company designed and manufactured ceramic electromagnetic filtering capacitors and integrated them with wire feedthroughs for use in IMDs. Sierra also designed and manufactured ceramic capacitors for military, aerospace and commercial applications.
July 2002	Globe Tool and Manufacturing Company, Inc. ("Globe")	Founded in 1954, the company designed and manufactured precision enclosures used in IMDs and commercial products used in the aerospace, electronic, and automotive sectors.

March 2004	NanoGram Devices Corporation ("NanoGram")	Founded in 1996, the company developed nanoscale materials for battery and medical device applications.
April 2007	BIOMEC, Inc. ("BIOMEC")	Established in 1998, the company provided medical device design and component integration to early-stage and established customers.
June 2007	Enpath Medical, Inc. ("Enpath")	Founded in 1981, the company designed, developed, and manufactured venous introducers and dilators, implantable leadwires, steerable sheaths and steerable catheters.
October 2007	IntelliSensing LLC ("IntelliSensing")	Established in 2005, the company designed and manufactured battery-powered wireless sensing solutions for demanding commercial applications.
November 2007	Quan Emerteq LLC ("Quan Emerteq")	Founded in 1998, the company designed, developed, and manufactured single use medical device products and components

		including delivery systems, catheters, stimulation leadwires and microcomponents and assemblies.
November 2007	Engineered Assemblies Corporation ("EAC")	Founded in 1984, the company designed and integrated custom battery solutions and electronics focused on rechargeable systems.
January 2008	P Medical Holding SA ("Precimed")	Founded in 1994, the company designed, manufactured and supplied trays, instruments and implants for orthopedic original equipment manufacturers ("OEM").
February 2008	DePuy Orthopaedics' Chaumont, France manufacturing facility	The facility manufactured hip, shoulder trauma and knee implants for DePuy.

FINANCIAL STATEMENT YEAR END

The Company utilizes a fifty-two, fifty-three week fiscal year ending on the Friday nearest December 31st. Fiscal years 2007, 2006 and 2005 ended on December 28, December 29 and December 30, respectively.

SEGMENT INFORMATION

We operate our business in two reportable segments - Implantable Medical Components ("IMC") and Electrochem Commercial Power ("ECP"). Segment information including sales from external customers, profit or loss, and assets by segment as well as sales from external customers and long-lived assets by geographic area are set forth at Note 14 - "Business Segment Information" of the Notes to the Consolidated Financial Statements contained at Item 8 of this report.

IMPLANTABLE MEDICAL DEVICE INDUSTRY

An IMD is an instrument that is surgically inserted into the body to provide diagnosis or therapy.

One sector of the IMD market is cardiac rhythm management ("CRM"), which is comprised of devices such as implantable pacemakers, implantable cardioverter defibrillators ("ICDs"), cardiac resynchronization therapy ("CRT") devices, and cardiac resynchronization therapy with backup defibrillation devices ("CRT-D").

A new emerging opportunity sector of the IMD market is the neurostimulation ("Neuro") market, which is comprised of pacemaker-type devices that stimulate various nerves for the treatment of various conditions. Beyond pain control, nerve stimulation for the treatment of movement disabilities such as Parkinson's disease, epilepsy, migraines, obesity and depression has shown promising results.

The following table sets forth the main categories of battery-powered IMDs and the principal illness or symptom treated by each device:

Device	Principal Illness or Symptom
Pacemakers.....	Abnormally slow heartbeat (Bradycardia)

ICDs	Rapid and irregular heartbeat (Tachycardia)
CRT/CRT-Ds	Congestive heart failure
Neurostimulators	Chronic pain, movement disorders, epilepsy, obesity or depression
Left ventricular assist devices (LVADs)	Heart failure
Drug pumps	Diabetes or chronic pain

We believe that the CRM and Neuro markets continue to exhibit strong underlying growth fundamentals and that we are well positioned to participate in this market growth. Increased demand is being driven by the following factors:

- Advances in medical technology - new therapies will allow physicians to use IMDs to treat a wider range of heart diseases.

- New, more sophisticated implantable devices - device manufacturers are developing new CRM devices and adding new features to existing products.

- New indications for CRM devices - the patient groups that are eligible for CRM devices have increased. Insurance guidelines may allow device reimbursements for these expanding patient populations.

- Expansion of neurostimulator applications - therapies expected to expand as new therapeutic applications for pulse generators are identified.

- An aging population - the number of people in the US that are over age 65 is expected to double in the next 30 years.

- New performance requirements - government regulators are increasingly requiring that IMDs be protected from electromagnetic interference ("EMI").

- Global markets - increased market penetration worldwide.

With the acquisition of Enpath and Quan Emerteq during 2007, we obtained new product offerings for therapy delivery. These offerings include products that deliver therapies for coronary/neurovascular disease, peripheral vascular disease, neurostimulation, CRM, as well as products for medical imaging and drug and pharmaceutical delivery. These products seek to capitalize on the growth in the Neuro and CRM markets, specifically with new indications for Neurostimulation devices. In addition, we continue to see strong growth in the vascular markets because of stent delivery procedures, peripheral-vascular disease therapies, and new indications for tissue extraction or ablation.

In early 2008, with the acquisition of Precimed and the DePuy Chaumont manufacturing facility, we entered the orthopedic sector of the IMD market. Many of the factors affecting the orthopedic market segment are similar to the CRM market. These factors include aging population, new implant and surgical technology, rising rates of obesity, a growing replacements market and emerging affluence in developing nations. As a result, we believe that the orthopedic market will also continue to exhibit strong growth fundamentals.

COMMERCIAL BATTERY INDUSTRY

Our commercial primary lithium batteries are used in demanding applications such as oil and gas exploration, pipeline inspection, oceanographic and seismic surveying, communication devices, and military and aerospace equipment. These

applications use a variety of battery-powered systems including measurement-while-drilling tools, pipeline inspection gauges, oceanography buoys, and hand-held military communication equipment. Commercial primary batteries are used with these systems because of extreme operating conditions and long life requirements. ECP commercial primary batteries are capable of operating reliably and safely at extremely high and low temperatures, as well as with high shock and vibration.

Our new line of rechargeable commercial batteries, acquired from EAC, provides ongoing power for portable equipment, devices and tools used in the market segments where our commercial primary batteries are widely used. The new rechargeable batteries complement our non-rechargeable primary batteries. This new product line enables us to expand into new market segments where rechargeable batteries may be better suited, such as external medical devices.

Our new line of wireless sensor solutions, acquired from IntelliSensing, further complements our traditional offerings. Many customers in our existing markets are seeking a means of sensing and controlling equipment wirelessly. Our next generation products offer vertically integrated solutions built on wireless sensor networks.

We expect the demand for reliable portable power and integrated wireless sensing solutions to continue to rise with the increase in oil and gas exploration, pipeline inspection, seismic surveying, and military and aerospace activity.

PRODUCTS

The following table provides information about our principal products:

IMPLANTABLE MEDICAL COMPONENTS:

PRODUCT	DESCRIPTION	PRINCIPAL PRODUC
Batteries	Power sources include: -- Lithium iodine ("Li Iodine") -- Lithium silver vanadium oxide ("Li SVO") -- Lithium carbon monoflouride ("Li CFx") -- Lithium ion rechargeable ("Li Ion") -- Lithium SVO/CFx ("QHR" & "QMR")	 High reliability Long service lif Customized confi Light weight Compact and less
Capacitors	Storage for energy generated by a battery before delivery to the heart. Used in ICDs and CRT-Ds.	Stores more ener density) than ot Customized confi
EMI filters	Filters electromagnetic interference to limit undesirable response, malfunctioning or degradation in the performance of electronic equipment	High reliability frequency ranges Customized desig
Feedthroughs	Allow electrical signals to be brought from inside hermetically sealed IMD to an electrode	Ceramic to metal durable than tra Multifunctional
Coated electrodes	Deliver electric signal from the feedthrough to a body part undergoing stimulation	High quality coa Flexible in util

		biocompatible co Customized offer
Precision components	-- Machined -- Molded and over molded products	High level of ma Broad manufactur
Enclosures and related components	-- Titanium -- Stainless steel	Precision manufa configurations a
Value-added assemblies	Combination of multiple components in a single package/unit	Leveraging produ subassemblies an Provides synergi procurement syst
Leads	Cardiac, neurostim and hearing restoration stimulation leads	Unique configura
Introducers	Creates a conduit to insert infusion catheters, guidewires, implantable ports, pacemaker leads and other therapeutic devices into a blood vessel	Variety of sizes problem-free acc applications
Catheters	Delivers therapeutic devices to specific sites in the body	Enable safe, sim diagnostic devic
Implants	Orthopedic implants for reconstructive hip, shoulder, knee, trauma and spine procedures	Precision manufa and products, co sterile packagin

PRODUCT	DESCRIPTION	PRINCIPAL PRODUC
Instruments	Orthopedic instruments for reconstructive and trauma procedures	Designed to impr surgery time, in decrease risk of
Trays	Delivery systems for cleaning and sterilizing orthopedic instruments and implants	Deliver turn-key

ELECTROCHEM COMMERCIAL POWER:

Cells	Moderate-rate Spiral (high rate)	Optimized rate c High energy dens
Primary and rechargeable battery packs	Bundling of commercial batteries in a customer specific configuration	Increased power and ease of inte applications
Wireless sensors	Operates where wired sensors are undesirable or impractical	Measures pressur time, withstandi

RESEARCH AND DEVELOPMENT

Our position as a leading developer and manufacturer of components for IMDs and commercial batteries is largely the result of our long history of technological innovation. We invest substantial resources in research, development and engineering. Our scientists, engineers and technicians focus on improving existing products, expanding the use of our products and developing new products. In addition to our internal technology and product development efforts, we at times engage outside research institutions for special projects.

PATENTS AND PROPRIETARY TECHNOLOGY

We rely on a combination of patents, license, trade secrets and know-how to establish and protect our proprietary rights to our technologies and products. We have 387 active U.S. patents and 203 active foreign patents. We also have 213 U.S. and 233 foreign pending patent applications at various stages of approval. During the past three years, we have been granted 91 new U.S. patents, of which 17 were granted in 2007. Corresponding foreign patents have been issued or are expected to be issued in the near future. Often, several patents covering various aspects of the design protect a single product. We believe this provides broad protection of the inventions employed.

Our active battery patents relate to process improvements and design modifications to the original technology that was developed either by our Company or others. As part of our current technology strategy, we plan to expand the purchased patents and licensed technology acquired with the NanoGram acquisition through continued development of advanced cathode materials for our implantable battery product lines. Nano-SVO cathode material is part of this plan and is expected to become the standard technology broadly adopted by all SVO battery applications.

We are also a party to several license agreements with third parties under which we have obtained, on varying terms, the exclusive or non-exclusive rights to patents held by them. One of these agreements is for the basic technology used in our wet tantalum capacitors. We have also granted rights in our patents to others under license agreements.

It is our policy to require our management and technical employees, consultants and other parties having access to our confidential information to execute confidentiality agreements. These agreements prohibit disclosure of confidential information to third parties except in specified circumstances. In the case of employees and consultants, the agreements generally provide that all confidential information relating to our business is the exclusive property of the Company.

MANUFACTURING AND QUALITY CONTROL

We primarily manufacture small lot sizes, as most customer orders range from a few hundred to a few thousand units. As a result, our ability to remain flexible is an important factor in maintaining high levels of productivity. Each of our production teams receives assistance from a manufacturing support team, which typically consists of representatives from our quality control, engineering, manufacturing, materials and procurement departments. Our quality systems are compliant with and certified to various recognized international standards.

Our commercial battery facility in Canton, MA and our facilities in Alden, NY and Minneapolis, MN (enclosure manufacturing and engineering) are ISO 9001-2000 registered, which requires compliance with regulations regarding quality systems of product design (where applicable), supplier control, manufacturing processes and management review. This certification can only be achieved after completion

of an audit conducted by an independent authority.

Our facilities in Tijuana, Mexico, Minneapolis, MN (Quan Emerteq), Clarence, NY (machining and assembly of components), and several of the Orvin, Switzerland (Precimed) sites are ISO 13485 certified in the design (where applicable) and manufacture of components and performance of assembly operations. This level of certification additionally allows for the manufacture and distribution of devices outside of the US. This certification gives us the ability to serve as a manufacturing partner to medical device manufacturers, which we believe will improve our competitive position in the Therapy Delivery, CRM and emerging neurostimulation and Orthopedic markets. Our Enpath facility (Minneapolis, MN) and several of our Precimed facilities (Switzerland and France) are also registered with the FDA, thus enabling the manufacture and distribution of registered medical devices both inside and outside the US.

We are currently working with several neurostimulation companies that can benefit from our expanded capabilities. Providing device level manufacturing capability allows us to move up our customers' supply-chain and helps to drive both component and sub-assembly growth.

Our existing manufacturing plants are audited by several notified bodies (TUV, G-Med, QMI, BSI, and the National Standards Authority of Ireland). To maintain certification, all facilities must be reexamined routinely by their respective notified body.

SALES AND MARKETING

Products from our IMC business are sold directly to our customers. In our ECP business, we utilize a combination of direct and indirect sales methods, depending on the particular product. In 2007, approximately 48% of our products were sold in the US. Sales to countries outside of the US are primarily to customers whose corporate offices are located and headquartered in the US. Information regarding our sales by geographic area is set forth at Note 14 - "Business Segment Information" of the Notes to the Consolidated Financial Statements contained at Item 8 of this report.

The majority of our medical customers contract with us to develop custom components and assemblies to fit their specific product specifications. As a result, we have established close working relationships between our internal program managers and our customers. We market our products and technologies at industry meetings and trade shows domestically and internationally.

Internal sales managers support all activity and involve engineers and technology professionals in the sales process to address customer requests appropriately.

We sell our commercial cells and battery packs directly to the end user, directly to manufacturers that incorporate our products into other devices for resale, or to distributors who sell our products to manufacturers and end users. Our sales managers are trained to assist our customers in selecting appropriate chemistries and configurations. We market our ECP products at various technical trade meetings. We also place print advertisements in relevant trade publications.

Firm backlog orders at December 31, 2007 and 2006 were approximately $107.2 million and $76.6 million, respectively. Most of these orders are expected to be shipped within one year. See Customers section below for further discussion.

CUSTOMERS

Our IMC customers include leading IMD manufacturers, in alphabetical order here and throughout this report, such as Biotronik, Boston Scientific, Medtronic, the Sorin Group and St. Jude Medical. In 2007, Boston Scientific, Medtronic and St. Jude Medical, collectively accounted for 67% of our total sales, compared to 67% in 2006 and 70% in 2005. The nature and extent of our selling relationships with each IMC customer are different in terms of breadth of component products purchased, purchased product volumes, length of contractual commitment, ordering patterns, inventory management and selling prices. During 2007 and in the first quarter of 2008, we completed seven acquisitions consistent with our strategic objective to diversify our customer base and market concentration. We anticipate that in 2008, we will reduce our concentration in the CRM market from approximately 80% to approximately 50%.

Our ECP customers are primarily companies involved in the oil and gas exploration, pipeline inspection, telematics, oceanography equipment, seismic, communication, military and aerospace markets including Halliburton Company, Weatherford International, General Electric and PathFinder Energy Services.

We entered into an agreement with Boston Scientific in June 2007 pursuant to which Boston Scientific will purchase a minimum percentage of batteries, wet tantalum capacitors and formed metal components at prices specified in the agreement. The period of the agreement is July 1, 2007 through December 31, 2010. Our previous agreement with Boston Scientific pursuant to which Boston Scientific purchased filtered feedthroughs scheduled to expire December 31, 2007 was extended through March 31, 2008. We are negotiating a follow-on agreement with targeted completion during the first quarter of 2008. Purchases and shipments of filtered feedthroughs continue during contract negotiations.

We have a supply agreement with St. Jude Medical pursuant to which St. Jude Medical purchases batteries, wet tantalum capacitors, filtered feedthroughs, molded components and enclosures under specified price and volume terms. A contract amendment effective March 1, 2007 extended the contract term to December 31, 2013

We have a supply agreement with Medtronic pursuant to which Medtronic will purchase implantable device shield sub-assemblies and other products under specified price and volume terms. The contract term is seven years, commencing August 2, 2004 and ending August 2, 2011. In October 2005, we entered into a license agreement which grants Medtronic the right to use certain of our intellectual property relating to tantalum capacitors. The license is perpetual and is exclusive to Medtronic, except for our right to make and sell tantalum capacitors.

SUPPLIERS AND RAW MATERIALS

We purchase certain critical raw materials from a limited number of suppliers due to the technically challenging requirements of the supplied product and/or the lengthy process required to qualify these materials with our customers. We cannot quickly establish additional or replacement suppliers for these materials because of these requirements. In the past, we have not experienced any significant interruptions or delays in obtaining these raw materials. We maintain minimum safety stock levels of critical raw materials.

For other raw material purchases, we utilize competitive pricing methods such as bulk purchases, precious metal pool buys, blanket orders, and long-term contracts to secure supply. We believe that there are alternative suppliers or substitute products available at competitive prices for all of the materials we purchase.

COMPETITION

Existing and potential competitors in our IMC business includes leading IMD manufacturers such as Biotronik, Boston Scientific, Medtronic, the Sorin Group and St. Jude Medical that currently have vertically integrated operations and may expand their vertical integration capability in the future. Competitors also include independent suppliers who typically specialize in one type of component.

Our known non-vertically integrated competitors include the following:

Product Line	Competitors
Medical batteries	Litronik (a subsidiary of Biotronik) Eagle-Picher
Capacitors	Critical Medical Components
Feedthroughs	Alberox (subsidiary of The Morgan Crucible Co. PLC)
EMI filtering	AVX (subsidiary of Kyocera) Eurofarad
Enclosures	Heraeus Hudson
Commercial batteries/battery packs	Eagle-Picher Engineered Power Saft Tadiran Tracer Technologies Ultralife Nexergy Micro-power
Machined and molded components	Numerous
Value added assembly	Numerous
Orthopedic trays, instruments and implants	Symmetry Paragon Accelent Teleflex Viasys Orchid
Catheters	Teleflex
Leadwires	Oscor

GOVERNMENT REGULATION

Except as described below, our business is not subject to direct governmental regulation other than the laws and regulations generally applicable to businesses in the jurisdictions in which we operate. We are subject to federal, state and local environmental laws and regulations governing the emission,

discharge, use, storage and disposal of hazardous materials and the remediation of contamination associated with the release of these materials at our facilities and at off-site disposal locations. Our manufacturing and research, development and engineering activities may involve the controlled use of small amounts of hazardous materials. Liabilities associated with hazardous material releases arise principally under the federal Comprehensive Environmental Response, Compensation and Liability Act and analogous state laws that impose strict, joint and several liability on owners and operators of contaminated facilities and parties that arrange for the off-site disposal of hazardous materials. We are not aware of any material noncompliance with the environmental laws currently applicable to our business and we are not subject to any material claim for liability with respect to contamination at any company facility or any off-site location. We cannot assure you that we will not become subject to such environmental liabilities in the future as a result of historic or current operations.

To varying degrees, our products are subject to regulation by numerous government agencies, including the US Food and Drug Administration ("FDA") and comparable foreign agencies. The medical product components we manufacture are not subject to regulation by the FDA. However, the FDA and related state and foreign governmental agencies regulate the devices we manufacture and our customers' products as medical devices.

We have "master files" on record with the FDA. Master files may be used to provide confidential detailed information about facilities, processes, or articles used in the manufacturing, processing, packaging and storing of one or more medical device components. These submissions may be used by device manufacturers to support the premarket notification process required by Section 510(k) of the federal Food Drug & Cosmetic Act. This notification process is necessary to obtain clearance from the FDA to market a device for human use in the US.

The medical devices we manufacture and market are subject to regulation by the FDA and, in some instances, by state and foreign authorities. Pursuant to the Medical Device Amendments of 1976 to the Federal Food, Drug and Cosmetic Act and related regulations, medical devices intended for human use are classified into three categories (Classes I, II and III), depending upon the degree of regulatory control to which they will be subject. In the U.S. our introducer and delivery catheter products are considered Class II devices.

If a Class II device is substantially equivalent to an existing (predicate) device that has been continuously marketed since the effective date of the 1976 Amendments, FDA requirements may be satisfied through a Pre-market Notification Submission or 510(k) under which the applicant provides product information supporting its claim of substantial equivalence. In a 510(k) Submission, the FDA may also require that we provide clinical test results demonstrating the safety and efficacy of the device. Generally, Class III devices are typically life-sustaining, life supporting, or implantable devices that must receive Pre-Market Approval ("PMA") by the FDA to ensure their safety and effectiveness. A PMA is a more rigorous approval process typically requiring human clinical studies. Certain leads that we manufacture and market are Class III devices, but any required PMA is submitted and received by our customers.

As a manufacturer of medical devices, we are also subject to certain other FDA regulations and our device manufacturing processes and facilities are subject to on-going review by the FDA in order to ensure compliance with current Good Manufacturing Practices. We believe that our manufacturing and quality procedures conform to the requirements of FDA regulations. Our sales and marketing practices are subject to regulation by the U.S. Department of Health

and Human Services pursuant to federal anti-kickback laws, and are also subject to similar state laws.

We are also subject to various other environmental, transportation and labor laws as well as various other directives and regulations both in the U.S. and abroad. We believe that compliance with these laws will not have a material impact on our capital expenditures, earnings or competitive position. Given the scope and nature of these laws, however, there can be no assurance that they will not have a material impact on our results of operations. We assess potential contingent liabilities on a quarterly basis. At present, we are not aware of any such liabilities that would have a material impact on our business.

RECRUITING AND TRAINING

We invest substantial resources in our recruiting efforts that focus on supplying quality personnel to support our business objectives. We have established a number of programs that are designed to challenge and motivate our employees. All staff are encouraged to be proactive in contributing ideas. Feedback surveys are used to collect suggestions on ways that our business and operations can be improved. We further meet our hiring needs through outside sources as required.

We provide a training program for our new employees that is designed to educate them on safety, quality, business strategy, corporate culture, and the methodologies and technical competencies that are required for our business. Our safety training programs focus on such areas as basic industrial safety practices and emergency response procedures to deal with any potential fires or chemical spills. All of our employees are required to participate in a specialized training program that is designed to provide an understanding of our quality objectives. Supporting our lifelong learning environment, we offer our employees a tuition reimbursement program and encourage them to continue their education at accredited colleges and universities. Many of our professionals attend seminars on topics that are related to our corporate objectives and strategies. We believe that comprehensive training is necessary to ensure that our employees have state of the art skills, utilize best practices, and have a common understanding of work practices.

EMPLOYEES

The following table provides a breakdown of employees as of December 28, 2007:

Manufacturing	1,401
General and administrative	122
Sales and marketing	44
Research and development	114
Engineering	97
Tijuana, Mexico facility	613
Suzhou, China facility	54
Total	2,445

We also employ a number of temporary employees to assist us with various projects and service functions and address peaks in staff requirements. Our employees are not represented by any union. The positions at our Tijuana, Mexico facility and our Suzhou, China facility are primarily manufacturing in nature. We added approximately 600 employees with our acquisition of Precimed and the DePuy Chaumont, France manufacturing facility. We believe that we have a good relationship with our employees.

EXECUTIVE OFFICERS OF THE COMPANY

Information concerning our executive officers is presented below as of February 26, 2008. The officers' terms of office run until the first meeting of the board of directors after our annual meeting, which takes place immediately following our Annual Meeting of Stockholders and until their successors are elected and qualified, except in the case of earlier death, retirement, resignation or removal.

Mauricio Arellano, age 41, is Senior Vice President and the Business Leader for our CRM and Neuromodulation Group. He served as the Senior Vice President and Business Leader of the Medical Solutions Group from November 2006 to January 2008 and as Vice President of Greatbatch Mexico from January 2005 to November 2006. Mr. Arellano joined our Company in October 2003 as the Plant Manager of our former Carson City, NV facility. Prior to joining our Company he served in a variety of human resources and operational roles with Tyco Healthcare - Especialidades Medicas Kenmex and with Sony de Tijuana Este.

John Ayliffe, age 40, is Vice President, Europe. He is responsible for European business development and sales for our Company. Mr. Ayliffe joined our Company in January 2008 upon our acquisition of Precimed. He had served as the Chief Operating Officer of Precimed since 1998.

Patrick Berdoz, age 47, is Senior Vice President and the Business Leader for our Orthopedic Group. Mr. Berdoz joined our Company in January 2008 upon acquisition of Precimed. He had served as President of Precimed since 1998.

Susan M. Bratton, age 51, is Senior Vice President and Business Leader for our Commercial Group. She served as Vice President of Corporate Quality from March 2001 to January 2005, as General Manager of our Electrochem Division from July 1998 to March 2001 and as Director of Procurement from June 1991 to July 1998. Ms. Bratton has held various other positions with our Company since joining us in 1976.

Susan H. Campbell, age 43, is Senior Vice President for Global Manufacturing and Supply Chain. She is responsible for all manufacturing operations. Ms. Campbell had served as the Business Leader for our Medical Power Group from January 2005 until January 2008. She joined our Company in April 2003 as the Plant Manger for our Clarence, NY facility. Prior to that time, Ms. Campbell was a plant manager for Delphi Corporation and General Motors Corporation.

Barbara M. Davis, age 57, is Vice President for Human Resources, a position she has held since April 2004. She joined our Company in October 1998 as Director of Human Resources and Organization Development.

John T. Farrell, age 47, is Vice President and Business Leader for our Therapy Delivery Group, a position to which he was appointed following our acquisition of Quan Emerteq in November 2007. He had been employed from August 2006 to November 2007 as President of Quan Emerteq. Prior to that, he had been employed for eight years by Kodak, most recently as Vice President and General Manager of its Healthcare Laser Imaging business.

Richard M. Farrell, age 45, is Vice President for Business Development, a position to which he was appointed following our acquisition of Quan Emerteq in November 2007. He was a founder of and had been employed by Quan Emerteq in a variety of roles, since 1998, most recently as its Vice President of Business Development.

Thomas J. Hook, age 45, is our President and Chief Executive Officer. Prior to August 2006, he was our Chief Operating Officer, a position he accepted upon joining our Company in September 2004. From August 2002 until September 2004, Mr. Hook was employed by CTI Molecular Imaging where he had served as President, CTI Solutions Group.

Thomas J. Mazza, age 54, is Senior Vice President and Chief Financial Officer, a position he has held since August 2005. He joined our Company in November 2003 as Vice President and Corporate Controller. Prior to that, Mr. Mazza served in a variety of financial roles with Foster Wheeler Ltd., most recently as Vice President and Corporate Controller.

Timothy G. McEvoy, age 50, is Vice President, General Counsel and Secretary, a position he has held since joining our Company in February 2007. From 1992 until January 2007, he was employed in a variety of legal roles by Manufacturers and Traders Trust Company, most recently as Administrative Vice President and Deputy General Counsel.

AVAILABLE INFORMATION

We make available free of charge on or through our internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file those reports with, or furnish them to, the Securities and Exchange Commission. Our Internet address is www.greatbatch.com. The information contained on our website is not incorporated by reference in this annual report on Form 10-K and should not be considered a part of this report.

CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

Some of the statements contained in this annual report on Form 10-K and other written and oral statements made from time to time by us and our representatives, are not statements of historical or current fact. As such, they are "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. We have based these forward-looking statements on our current expectations, which are subject to known and unknown risks, uncertainties and assumptions.

They include statements relating to:

- future sales, expenses and profitability;
- the future development and expected growth of our business and the IMD industry;
- our ability to execute our business model and our business strategy;
- our ability to identify trends within the IMD, medical component, and commercial power source industries and to offer products and services that meet the changing needs of those markets;
- projected capital expenditures; and
- trends in government regulation.

You can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially from those suggested by these forward-looking statements. In evaluating these statements and our

prospects generally, you should carefully consider the factors set forth below. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary factors and to others contained throughout this report. We are under no duty to update any of the forward-looking statements after the date of this report or to conform these statements to actual results.

Although it is not possible to create a comprehensive list of all factors that may cause actual results to differ from the results expressed or implied by our forward-looking statements or that may affect our future results, some of these factors include the following: dependence upon a limited number of customers, product obsolescence, inability to market current or future products, pricing pressure from customers, reliance on third party suppliers for raw materials, products and subcomponents, fluctuating operating results, inability to maintain high quality standards for our products, challenges to our intellectual property rights, product liability claims, inability to successfully consummate and integrate acquisitions, unsuccessful expansion into new markets, competition, inability to obtain licenses to key technology, regulatory changes or consolidation in the healthcare industry, and other risks and uncertainties that arise from time to time and are described in the Company's periodic filings with the Securities and Exchange Commission and in Item 1A of this report.

ITEM 1A. RISK FACTORS

Our business faces many risks. Any of the risks discussed below, or elsewhere in this report or in our other SEC filings, could have a material impact on our business, financial condition or results of operations. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also impair our business operations.

Risks Related To Our Business

We depend heavily on a limited number of customers, and if we lose any of them or they reduce their business with us, we would lose a substantial portion of our revenues.

A substantial portion of our business is conducted with a limited number of customers, including Biotronik, Boston Scientific, Medtronic, the Sorin Group and St. Jude Medical. In 2007, Boston Scientific, Medtronic and St. Jude Medical, collectively accounted for approximately 67% of our revenues. Our supply agreements with these customers might not be renewed. Furthermore, many of our supply agreements do not contain minimum purchase level requirements and therefore there is no guaranteed source of revenue that we can depend upon under these agreements. The loss of any large customer or a reduction of business with that customer for any reason would harm our business, financial condition and results of operations.

If we do not respond to changes in technology, our products may become obsolete and we may experience a loss of customers and lower revenues.

We sell our products to customers in several industries that are characterized by rapid technological changes, frequent new product introductions and evolving industry standards. Without the timely introduction of new products and enhancements, our products and services will likely become technologically obsolete over time and we may lose a significant number of our customers. In addition, other new products introduced by our customers may require fewer of our batteries or components. We dedicate a significant amount of resources to the development of our products and technologies and we would be harmed if we did not meet customer requirements and expectations. Our inability, for

technological or other reasons, to successfully develop and introduce new and innovative products could result in a loss of customers and lower revenues.

If we are unable to successfully market our current or future products, our business will be harmed and our revenues and operating results will be reduced.

The market for our medical products has been growing in recent years. If the market for our products does not grow as rapidly as forecasted by industry experts, our revenues could be less than expected. In addition, it is difficult to predict the rate at which the market for our products will grow or at which new and increased competition will result in market saturation. Slower growth in the pacemaker, ICD and CRT markets in particular would negatively impact our revenues. In addition, we face the risk that our products will lose widespread market acceptance. Our customers may not continue to utilize the products we offer and a market may not develop for our future products. We may at times determine that it is not technically or economically feasible for us to continue to manufacture certain products and we may not be successful in developing or marketing them. Additionally, new technologies that we develop may not be rapidly accepted because of industry-specific factors, including the need for regulatory clearance, entrenched patterns of clinical practice and uncertainty over third party reimbursement. If this occurs, our business will be harmed and our operating results will be negatively affected.

We are subject to pricing pressures from customers, which could harm operating results.

We have made price reductions to some of our large customers in recent years and we expect customer pressure for price reductions will continue. Price concessions or reductions may cause our operating results to suffer. In addition, any delay or failure by a large customer to make payments due to us would harm our operating results and financial condition.

We rely on third party suppliers for raw materials, key products and subcomponents and if we are unable to obtain these materials, products and subcomponents on a timely basis or on terms acceptable to us, our ability to manufacture products will suffer.

Our business depends on a continuous supply of raw materials. The principal raw materials used in our business include lithium, iodine, tantalum, platinum, ruthenium, gallium trichloride, tantalum pellets, vanadium pentoxide, iridium, and titanium. Raw materials needed for our business are susceptible to fluctuations due to transportation, government regulations, price controls, economic climate or other unforeseen circumstances. Increasing global demand for some of the raw materials we need for our business, including platinum, iridium, gallium trichloride, tantalum and titanium, has caused the prices of these materials to increase significantly. In addition, there are a limited number of worldwide suppliers of several raw materials needed to manufacture our products, including lithium, gallium trichloride, carbon monofluoride, and tantalum. We may not be able to continue to procure raw materials critical to our business or to procure them at acceptable price levels.

We rely on third party manufacturers to supply many of our products and subcomponents. Manufacturing problems may occur with these and other outside sources, as a supplier may fail to develop and supply products and subcomponents to us on a timely basis, or may supply us with products and subcomponents that do not meet our quality, quantity and cost requirements. If any of these problems occur, we may be unable to obtain substitute sources for these products and subcomponents on a timely basis or on terms acceptable to us, which could harm our ability to manufacture our own products and components profitably or on

time. In addition, to the extent the processes that our suppliers use to manufacture products and subcomponents are proprietary, we may be unable to obtain comparable subcomponents from alternative suppliers.

We may never realize the full value of our intangible assets, which represent a significant portion of our total assets.

At December 28, 2007, we had $352.4 million of intangible assets, representing 53% of our total assets. These intangible assets consist primarily of goodwill, trademarks, tradenames, customer lists and patented technology arising from our acquisitions. Goodwill and other intangible assets with indefinite lives are not amortized, but are tested annually or upon the occurrence of certain events that indicate that the assets may be impaired. We may not receive the recorded value for our intangible assets if we sell or liquidate our business or assets. In addition, the material concentration of intangible assets increases the risk of a large charge to earnings in the event that the recoverability of these intangible assets is impaired, and in the event of such a charge to earnings, the market price of our common stock could be adversely affected. In addition, intangible assets with definite lives, which represent $71.3 million of our net intangible assets at December 28, 2007, will continue to be amortized. We incurred total amortization expenses relating to these intangible assets of $5.6 million in 2007. These expenses will reduce our future earnings or increase our future losses.

Quality problems with our products could harm our reputation for producing high quality products, erode our competitive advantage and result in claims against us.

Our products are held to high quality and performance standards. In the event that our products fail to meet these standards, our reputation for producing high quality products could be harmed, which would damage our competitive advantage and could result in lower revenues. Product quality or performance issues may also result in product liability or other legal claims against us, which could harm our operating results or financial condition.

Quality problems with our products could result in warranty claims and additional costs.

We generally allow customers to return defective or damaged products for credit, replacement, or exchange. We generally warrant that our products will meet customer specifications and will be free from defects in materials and workmanship. Additionally, we carry a safety stock of inventory for our customers which may be impacted by warranty claims. We accrue for our exposure to warranty claims based upon recent historical experience and other specific information as it becomes available. However, such reserves may not be adequate to cover future warranty claims and additional warranty costs and/or inventory write-offs may be incurred which could harm our operating results or financial condition.

If we become subject to product liability claims, our operating results and financial condition could suffer.

The manufacturing and sale of our products expose us to potential product liability claims and product recalls, including those that may arise from failure to meet product specifications, misuse or malfunction of, or design flaws in our products, or use of our products with components or systems not manufactured or sold by us. Many of our products are components and function in interaction with our customers' medical devices. For example, our batteries are produced to meet various electrical performance, longevity and other

specifications, but the actual performance of those products is dependent on how they are in fact utilized as part of the customers' devices over the lifetime of the products. Product performance and device interaction from time to time have been, and may in the future be, different than expected for a number of reasons.

Consequently, it is possible that customers may experience problems with their medical devices that could require device recall or other corrective action, where our batteries met the specification at delivery, and for reasons that are not related primarily or at all to any failure by our product to perform in accordance with specifications. It is possible that our customers (or end-users) may in the future assert that our products caused or contributed to device failure where our product was not the primary cause of the device performance issue. Even if these assertions do not lead to product liability or contract claims, they could harm our reputation and our customer relationships.

Provisions contained in our agreements with key customers attempting to limit our damages, including provisions to limit damages to liability for gross negligence, may not be enforceable in all instances or may otherwise fail to protect us from liability for damages. Product liability claims or product recalls, regardless of their ultimate outcome, could require us to spend significant time and money in litigation or require us to pay significant damages. The occurrence of product liability claims or product recalls could adversely affect our operating results and financial condition.

We carry liability insurance coverage that is limited in scope and amount. We may not be able to maintain this insurance at a reasonable cost or on reasonable terms, or at all. This insurance may not be adequate to protect us against a product liability claim that arises in the future.

Our operating results may fluctuate, which may make it difficult to forecast our future performance and may result in volatility in our stock price.

Our operating results have fluctuated in the past and are likely to fluctuate significantly from quarter to quarter due to a variety of factors, including but not limited to the following:

- the fixed nature of a substantial percentage of our costs, which results in our operations being particularly sensitive to fluctuations in revenue;
- changes in the relative portion of our revenue represented by our various products and customers, which could result in reductions in our profits if the relative portion of our revenue represented by lower margin products increases;
- timing of orders placed by our principal customers who account for a significant portion of our revenues; and
- increased costs of raw materials or supplies.

If we are unable to protect our intellectual property and proprietary rights, our business could be adversely affected.

We rely on a combination of patents, licenses, trade secrets and know-how to establish and protect our proprietary rights to our technologies and products. As of December 28, 2007, we held 387 active U.S. patents. However, the steps we have taken or will take to protect our proprietary rights may not be adequate to deter misappropriation of our intellectual property. In addition to seeking formal patent protection whenever possible, we attempt to protect our

proprietary rights and trade secrets by entering into confidentiality and non-compete agreements with employees, consultants and third parties with which we do business. However, these agreements can be breached and, if they are, there may not be an adequate remedy available to us and we may be unable to prevent the unauthorized disclosure or use of our technical knowledge, practices or procedures. If our trade secrets become known, we may lose our competitive advantages.

If third parties infringe or misappropriate our patents or other proprietary rights, our business could be seriously harmed. We may be required to spend significant resources to monitor our intellectual property rights, we may not be able to detect infringement of these rights and may lose our competitive advantages associated with our intellectual property rights before we do so. In addition, competitors may design around our technology or develop competing technologies that do not infringe on our proprietary rights.

We may be subject to intellectual property claims, which could be costly and time consuming and could divert our management from our business operations.

In producing our products, third parties may claim that we are infringing on their intellectual property rights, and we may be found to have infringed those intellectual property rights. We may be unaware of intellectual property rights of others that may be used in our technology and products. In addition, third parties may claim that our patents have been improperly granted and may seek to invalidate our existing or future patents. If any claim for invalidation prevailed, the result could be greatly expanded opportunities for third parties to manufacture and sell products that compete with our products and our revenues from any related license agreements would decrease accordingly. We also typically do not receive significant indemnification from parties which license technology to us against third party claims of intellectual property infringement.

Any litigation or other challenges regarding our patents or other intellectual property could be costly and time consuming and could divert our management and key personnel from our business operations. The complexity of the technology involved in producing our products, and the uncertainty of intellectual property litigation increases these risks. Claims of intellectual property infringement might also require us to enter into costly royalty or license agreements. However, we may not be able to obtain royalty or license agreements on terms acceptable to us, or at all. We also may be subject to significant damages or injunctions against development and sale of our products. Infringement claims, even if not substantiated, could result in significant legal and other costs and may be a distraction to management.

We are dependent upon our senior management team and key personnel and the loss of any of them could significantly harm us.

Our future performance depends to a significant degree upon the continued contributions of our senior management team and key technical personnel. Our products are highly technical in nature. In general, only highly qualified and trained scientists have the necessary skills to develop our products. The loss or unavailability to us of any member of our senior management team or a key technical employee could significantly harm us. We face intense competition for these professionals from our competitors, customers and companies operating in our industry. To the extent that the services of members of our senior management team and key technical personnel would be unavailable to us for any reason, we would be required to hire other personnel to manage and operate our company and to develop our products and technology. We may not be able to locate or employ such qualified personnel on acceptable terms.

We may not be able to attract, train and retain a sufficient number of qualified employees to maintain and grow our business.

Our success will depend in large part upon our ability to attract, train, retain and motivate highly skilled employees and management. There is currently aggressive competition for employees who have experience in technology and engineering. We compete intensely with other companies to recruit and hire from this limited pool. The industries in which we compete for employees are characterized by high levels of employee attrition. Although we believe we offer competitive salaries and benefits, we may have to increase spending in order to attract, train and retain personnel.

We may make acquisitions that could subject us to a number of operational risks and we may not be successful in integrating companies we acquire into our existing operations.

We have made and expect to make in the future acquisitions that complement our core competencies in technology and manufacturing to enable us to manufacture and sell additional products to our existing customers and to expand our business into related markets. Implementation of our acquisition strategy entails a number of risks, including:

- inaccurate assessments of potential liabilities associated with the acquired businesses;
- the existence of unknown and/or undisclosed liabilities associated with the acquired businesses;
- diversion of our management's attention from our core businesses;
- potential loss of key employees or customers of the acquired businesses;
- difficulties in integrating the operations and products of an acquired business or in realizing projected revenue growth, efficiencies and cost savings; and
- increases in our indebtedness and a limitation in our ability to access additional capital when needed.

Since the end of 2006, we have made seven acquisitions: BIOMEC in April 2007; Enpath in June 2007; IntelliSensing in October 2007; Quan Emerteq in November 2007; EAC in November 2007; and most recently Precimed in January 2008 and DePuy in February 2008. These acquisitions have increased the size and scope of our operations, and may place a strain on our managerial, operational and financial resources and systems. Any failure by us to manage this growth and successfully integrate these acquisitions could harm our business and our financial condition and results.

If we are not successful in making acquisitions to expand and develop our business, our operating results may suffer.

A component of our strategy is to make acquisitions that complement our core competencies in technology and manufacturing to enable us to manufacture and sell additional products to our existing customers and to expand our business into related markets. Our continued growth will depend on our ability to identify and acquire companies that complement or enhance our business on acceptable terms. We may not be able to identify or complete future acquisitions. Some of the risks that we may encounter include expenses associated with and difficulties in identifying potential targets, the costs associated with unsuccessful acquisitions, and higher prices for acquired companies because of competition for attractive acquisition targets. Our failure to acquire additional companies could cause our operating results to suffer.

We may face competition from our principal medical customers that could harm our business and we may be unable to compete successfully against new entrants and established companies with greater resources.

Competition in connection with the manufacturing of our products may intensify in the future. One or more of our customers may undertake additional vertical integration initiatives and begin to manufacture some or all of their components that we currently supply them which could cause our operating results to suffer.

The market for commercial power sources is competitive, fragmented and subject to rapid technological change. Many other commercial power source suppliers are larger and have greater financial, operational, personnel, sales, technical and marketing resources than our company. These and other companies may develop products that are superior to ours, which could result in lower revenues and operating results.

Accidents at one of our facilities could delay production and adversely affect our operations.

Our business involves complex manufacturing processes and hazardous materials that can be dangerous to our employees. Although we employ safety procedures in the design and operation of our facilities, there is a risk that an accident or death could occur in one of our facilities. Any accident, such as a chemical spill, could result in significant manufacturing delays or claims for damages resulting from injuries, which would harm our operations and financial condition. The potential liability resulting from any such accident or death, to the extent not covered by insurance, could cause our business to suffer. Any disruption of operations at any of our facilities could harm our business.

We intend to expand into new markets and our proposed expansion plans may not be successful, which could harm our operating results.

We intend to expand into new markets through the development of new product applications based on our existing component technologies. These efforts have required and will continue to require us to make substantial investments, including significant research, development and engineering expenditures and capital expenditures for new, expanded or improved manufacturing facilities. We may not be able to successfully manage expansion into new markets and products and these efforts may harm our operating results. Specific risks in connection with expanding into new markets include the inability to transfer our quality standards into new products, the failure of customers in new markets to accept our products, and competition.

Our failure to obtain licenses from third parties for new technologies or the loss of these licenses could impair our ability to design and manufacture new products and reduce our revenues.

We occasionally license technologies from third parties rather than depending exclusively on our own proprietary technology and developments. For example, we license a capacitor patent from another company. Our ability to license new technologies from third parties is and will continue to be critical to our ability to offer new and improved products. We may not be able to continue to identify new technologies developed by others and even if we are able to identify new technologies, we may not be able to negotiate licenses on favorable terms, or at all.

Additionally, we could lose rights granted under licenses for reasons beyond our control. For example, the licensor could lose patent protection for a number of reasons, including invalidity of the licensed patent.

Our international operations and sales are subject to a variety of risks and costs that could adversely affect our profitability and operating results.

Our sales to countries outside the U.S., which accounted for 52% of net sales for the year ended December 28, 2007, our Tijuana, Mexico operations and our Suzhou, China facility are subject to certain foreign country risks. In 2008, we acquired European subsidiaries and manufacturing facilities. Our international operations are, and will continue to be, subject to a number of risks and potential costs, including:

- changes in foreign medical reimbursement programs and policies;
- changes in foreign regulatory requirements;
- local product preferences and product requirements;
- longer-term receivables than are typical in the U.S.;
- difficulties in enforcing agreements through certain foreign legal systems;
- less protection of intellectual property in some countries outside of the U.S.;
- trade protection measures and import and export licensing requirements;
- work force instability;
- political and economic instability; and
- complex tax and cash management issues.

Our sales to countries outside of the U.S. are primarily to customers whose corporate offices are located and headquartered in the U.S. All supply contracts to customers outside the U.S. are denominated in U.S. dollars. We incur certain expenses related to our Tijuana and Suzhou operations that are denominated in a foreign currency. Historically, foreign currency fluctuations have not had a material effect on our consolidated financial statements. However, fluctuations in foreign currency exchange rates could have a significant negative impact on our profitability and operating results if the volume of transactions denominated in foreign currencies increases.

Risks Related To Our Industries

The healthcare industry is subject to various political, economic and regulatory changes that could force us to modify how we develop and price our products.

The healthcare industry is highly regulated and is influenced by changing political, economic and regulatory factors. Several of our product lines are subject to international, federal, state and local health and safety, packaging and product content regulations. In addition, IMDs produced by our medical customers are subject to regulation by the U.S. Food and Drug Administration and similar governmental agencies. These regulations govern a wide variety of product activities from design and development to labeling, manufacturing, promotion, sales and distribution. Compliance with these regulations may be time consuming, burdensome and expensive and could negatively affect our customers' abilities to sell their products, which in turn would adversely affect our ability to sell our products. This may result in higher than anticipated costs or lower than anticipated revenues.

These regulations are also complex, change frequently and have tended to become more stringent over time. Federal and state legislatures have periodically

considered programs to reform or amend the U.S. healthcare system at both the federal and state levels. In addition, these regulations may contain proposals to increase governmental involvement in healthcare, lower reimbursement rates or otherwise change the environment in which healthcare industry participants operate. We may be required to incur significant expenses to comply with these regulations or remedy past violations of these regulations. Any failure by our company to comply with applicable government regulations could also result in cessation of portions or all of our operations, impositions of fines and restrictions on our ability to carry on or expand our operations. In addition, because many of our products are sold into regulated industries, we must comply with additional regulations in marketing our products.

Our business is subject to environmental regulations that could be costly to comply with.

Federal, state and local regulations impose various environmental controls on the manufacturing, transportation, storage, use and disposal of batteries and hazardous chemicals and other materials used in, and hazardous waste produced by, the manufacturing of power sources and components. Conditions relating to our historical operations may require expenditures for clean-up in the future and changes in environmental laws and regulations may impose costly compliance requirements on us or otherwise subject us to future liabilities. Additional or modified regulations relating to the manufacture, transportation, storage, use and disposal of materials used to manufacture our batteries and components or restricting disposal of batteries may be imposed. In addition, we cannot predict the effect that additional or modified regulations may have on us or our customers.

Consolidation in the healthcare industry could result in greater competition and reduce our IMC revenues and harm our business.

Many healthcare industry companies are consolidating to create new companies with greater market power. As the healthcare industry consolidates, competition to provide products and services to industry participants will become more intense. These industry participants may try to use their market power to negotiate price concessions or reductions for our products. If we are forced to reduce our prices because of consolidation in the healthcare industry, our revenues would decrease and our operating results would suffer.

Our IMC business is indirectly subject to healthcare industry cost containment measures that could result in reduced sales of our products.

Several of our customers rely on third party payors, such as government programs and private health insurance plans, to reimburse some or all of the cost of the procedures in which our products are used. The continuing efforts of government, insurance companies and other payors of healthcare costs to contain or reduce those costs could lead to patients being unable to obtain approval for payment from these third party payors. If that occurred, sales of IMDs may decline significantly, and our customers may reduce or eliminate purchases of our products. The cost containment measures that healthcare payors are instituting, both in the U.S. and internationally, could reduce our revenues and harm our operating results.

Our ECP revenues are dependent on conditions in the oil and natural gas industry, which historically have been volatile.

Sales of our commercial products depend to a great extent upon the condition of the oil and gas industry and, specifically, the exploration and production expenditures of oil and gas companies, which comprise approximately 10% of our

total company sales. In the past, oil and natural gas prices have been volatile and the oil and gas exploration and production industry has been cyclical, and it is likely that oil and natural gas prices will continue to fluctuate in the future. The current and anticipated prices of oil and natural gas influence the oil and gas exploration and production business and are affected by a variety of political and economic factors beyond our control, including worldwide demand for oil and natural gas, worldwide and domestic supplies of oil and natural gas, the ability of the Organization of Petroleum Exporting Countries ("OPEC") to set and maintain production levels and pricing, the level of production of non-OPEC countries, the price and availability of alternative fuels, political stability in oil producing regions and the policies of the various governments regarding exploration and development of their oil and natural gas reserves. An adverse change in the oil and gas exploration and production industry or a reduction in the exploration and production expenditures of oil and gas companies could cause our revenues from ECP product sales to decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our executive offices are located in Clarence, New York. The following table sets forth information about all of our significant facilities as of December 28, 2007:

Location	Sq. Ft.	Own/Lease	Principal Use
Alden, NY.....	125,000	Own	Medical battery and capacitor manufacturing
Clarence, NY.....	82,800	Own	Research, development and engineering ("RD&E")
Clarence, NY.....	20,800	Own	Machining and assembly of components
Clarence, NY.....	18,600	Lease	Machining and assembly of components
Clarence, NY.....	45,300	Lease	Executive offices
Canton, MA.....	32,000	Own	Commercial battery manufacturing and RD&E
Columbia, MD.....	30,000	Lease	Feedthrough and electrode manufacturing
Minneapolis, MN.....	72,000	Own	Enclosure manufacturing and engineering
Plymouth, MN.....	95,700	Lease	Introducers, catheters and leads manufacturing an
Blaine, MN.....	32,400	Own	Medical device manufacturing and engineering (for
Teterboro, NJ.....	23,500	Lease	Office, warehousing and manufacturing (formerly E
Tijuana, Mexico.....	144,000	Lease	Value-added assembly and EMI filtering manufactur
Suzhou, China.....	27,100	Lease	Office, warehousing and manufacturing (formerly E

We believe these facilities are suitable and adequate for our current business. In February 2007, we announced that we will close our manufacturing facility in Canton, MA and construct a new 80,000 square foot replacement facility in Raynham, MA. The expected completion of this $28 million expansion project is in the fourth quarter of 2008. Additionally, in 2007 we began construction on the expansion of our research and development location in Clarence, NY. This additional 35,000 square feet of space will serve as our new corporate headquarters when finished in mid-2008.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various legal actions arising in the normal course of business. While we do not believe that the ultimate resolution of any such pending activities will have a material adverse effect on our consolidated results of operations, financial position, or cash flows, litigation is subject

to inherent uncertainties. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact in the period in which the ruling occurs.

During 2002, a former non-medical customer commenced an action alleging that the Company had used proprietary information of the customer to develop certain products. The Company believes that it has meritorious defenses and is vigorously defending the matter. The potential risk of loss is between $0.0 and $1.7 million.

In connection with our acquisition of Enpath, we assumed liability in connection with the following proceeding:

On June 12, 2006, Enpath was named as defendant in a patent infringement action filed by Pressure Products Medical Supplies, Inc. and venued in the US District Court in the Eastern District of Texas. On October 2, 2006, Enpath was officially served. Enpath has filed an answer denying liability and has filed counterclaims against the plaintiff alleging antitrust violations and patent misuse. The plaintiff has alleged that Enpath's FlowGuard(TM) valved introducer, which has been on the market for more than three years, infringes claims in the plaintiff's patents and is seeking damages and injunctive relief. Enpath believes that the plaintiff's claims are without merit and is vigorously pursuing its defense. Revenues from products sold that include the FlowGuard valved introducer were approximately $3.0 million, $2.0 million and $1.5 million for 2007, 2006 and 2005, respectively. The lawsuit is currently in the discovery stage. The District Court held a hearing to construe the claims of the plaintiff's patents in August 2007, but has not yet issued its decision. It is not possible to predict the timing or outcome of this litigation at this time, including whether it will affect the Company's ability to sell its FlowGuard products, or to estimate the amount or range of potential loss.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's security holders during the fourth quarter of 2007.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

The Company's common stock trades on the New York Stock Exchange ("NYSE") under the symbol "GB." The following table sets forth for the periods indicated the high, low and closing sales prices per share for the common stock as reported by the NYSE:

2006	High	Low	Close
First Quarter	$28.02	$20.49	$21.91
Second Quarter	24.92	19.10	23.60
Third Quarter	25.24	20.36	22.62
Fourth Quarter	27.78	21.40	26.92
2007			
First Quarter	$30.05	$25.04	$25.50
Second Quarter	33.17	25.31	32.40
Third Quarter	34.96	26.00	26.59

Fourth Quarter	27.50	18.52	19.91

As of February 26, 2008 there were 245 record holders of the Company's common stock. The Company stock account included in our 401(k) plan is considered one record holder for the purposes of this calculation. There are approximately 1,300 holders of Company stock in the 401(k) including active and former employees.

We have not paid cash dividends and currently intend to retain any earnings to further develop and grow our business. During the fourth quarter of 2007, the Company repurchased 7,041 shares from employees of the Company at an average cost of $19.91 per share to satisfy minimum tax withholding requirements on vested restricted stock awards as allowed under the Company's 2002 and 2005 stock incentive plans. The price of these repurchases was based upon the closing market price of the Company's stock on the date of vesting.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information regarding the Company's equity compensation plans as of December 28, 2007:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights or upon vesting of shares granted under restricted stock plan (a)	Weighted-average exervise price of outstanding options, warrants and rights; Weighted-average share price of restricted stock shares granted (b)
Equity compensation plans approved by security holders (1)	1,744,022	$ 25.04
Equity compensation plan approved by security holders (2)	282,134	$ 24.96
Equity compensation plans not approved by security holders	-	-
Total	2,026,156	$ 25.03

(1) Consists of stock options issued under the 1997 Stock Option Plan, 1998 Stock Option Plan, Non-Employee Director Stock Incentive Plan and the 2005 Stock Incentive Plan. Future shares will only be issued from the 2005 Stock Incentive Plan.
(2) Consists of shares of restricted stock granted pursuant to the 2002 Restricted Stock Plan and 2005 Stock Incentive Plan. Future shares will only be issued from the 2005 Stock Incentive Plan and is included in the 1,317,904 remaining shares available under that plan.

PERFORMANCE GRAPH

The following graph compares for the five year period ended December 28, 2007, the cumulative total stockholder return for Greatbatch, Inc., the S&P SmallCap 600 Index, and the Hemscott Peer Group Index. The Hemscott Peer Group Index includes approximately 200 comparable companies included in the Hemscott Industry Group 520 Medical Instruments & Supplies and 521 Medical Appliances & Equipment. The graph assumes that $100 was invested on January 3, 2003 and assumes reinvestment of dividends. The stock price performance shown on the following graph is not necessarily indicative of future price performance:

(Please see attached pdf for corresponding graph)

	1/03/03	1/02/04	12/31/04	12/30/05	1
GREATBATCH, INC.	100.00	149.30	78.12	90.63	
HEMSCOTT PEER GROUP INDEX	100.00	133.47	153.72	165.24	
S&P SMALLCAP 600 INDEX	100.00	138.79	170.22	183.30	

ITEM 6. SELECTED FINANCIAL DATA

The following table provides selected financial data of our Company for the periods indicated. You should read this data along with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 8, "Financial Statements and Supplementary Data" appearing elsewhere in this report. The consolidated statement of operations data and the consolidated balance sheet data for the fiscal years indicated have been derived from our consolidated financial statements and related notes.

Years ended	Dec. 28, 2007 (5)	Dec. 29, 2006	Dec. 30, 2005	Dec. 31, 2004 (1)
			(in thousands, except per share data)	
Consolidated Statement of Operations Data:				
Sales	$318,746	$271,142	$241,097	$200,119
Income before income taxes	$ 28,688 (3)	$ 23,534 (3)(4)	$ 15,464 (3)	$ 23,732
Income per share				
Basic	$ 0.68	$ 0.74	$ 0.47	$ 0.67
Diluted	$ 0.67	$ 0.73	$ 0.46	$ 0.66
Consolidated Balance Sheet Data:				
Working capital	$116,816	$199,051	$151,958	$132,360
Total assets	$663,851	$547,827	$512,911	$476,166

Long-term obligations	$276,772	$205,859	$200,261	$193,948

(1) In March 2004, we acquired the capital stock of NanoGram. These amounts include the results of operations of NanoGram subsequent to its acquisition.

(2) We adopted Emerging Issues Task Force ("EITF") Issue 04-08, The Effect of Contingently Convertible Instruments on Diluted Earnings Per Share, in the fourth quarter of 2004. Under EITF 04-08, we must include the effect of the conversion of our convertible subordinated notes in the calculation of diluted earnings per share using the if-converted method as long as the effect is dilutive. The impact of adopting EITF 04-08 was a $0.03 reduction in diluted earnings per share for 2003 from $1.08 to $1.05. Diluted earnings per share for 2003 are restated to reflect the adoption of EITF 04-08.

(3) During 2007, 2006 and 2005, we recorded charges in other operating expenses related to our ongoing cost savings and consolidation efforts. Additional information is set forth at Note 11 - "Other Operating Expenses" of the Notes to the Consolidated Financial Statements contained in Item 8 of this report.

(4) Beginning in fiscal year 2006, we adopted Financial Accounting Standards Board, Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123(R)"), and related Securities and Exchange Commission rules included in Staff Accounting Bulletin No. 107. Under SFAS No. 123(R) we are now required to record compensation costs related to all stock-based awards. Compensation costs related to share-based payments for 2007 totaled $5.7 million, $3.8 million net of tax, or $0.17 per diluted share and for 2006 totaled $6.4 million, $4.4 million net of tax, or $0.17 per diluted share. The incremental cost of expensing stock options under SFAS No. 123(R) for 2007 was $3.5 million, $2.4 million net of tax or $0.11 per diluted share and for 2006 was $4.5 million, $3.1 million net of tax or $0.12 per diluted share.

(5) During 2007, we acquired BIOMEC, Inc., Enpath Medical, Inc., IntelliSensing, LLC, Quan Emerteq, LLC, and Engineered Assemblies Corporation. These amounts include the results of operation of these companies subsequent to their acquisitions.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

YOU SHOULD READ THE FOLLOWING DISCUSSION AND ANALYSIS OF OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS IN CONJUNCTION WITH OUR FINANCIAL STATEMENTS AND RELATED NOTES INCLUDED ELSEWHERE IN THIS REPORT.

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Our Business

We operate our business in two reportable segments - Implantable Medical Components ("IMC") and Electrochem Commercial Power ("ECP"). The IMC segment designs and manufactures batteries, capacitors, filtered feedthroughs, engineered components and enclosures used in Implantable Medical Devices

("IMD"). Additionally, the IMC business offers value-added assembly and design engineering services for products that incorporate IMD components. As a result of our acquisitions in 2007, the IMC business now designs, develops and manufactures introducers, catheters, implantable stimulation leads and microcomponents for the vascular, cardiac rhythm management and neurostimulation markets.

The ECP segment designs and manufactures high performance batteries and battery packs for use in oil and gas exploration, pipeline inspection, telematics, oceanography equipment, seismic, communication, military and aerospace applications. As a result of our acquisitions, the ECP business can now design and provide our customers rechargeable battery and wireless sensor systems.

Our Acquisitions

On April 3, 2007, we acquired substantially all of the assets of BIOMEC, Inc. ("BIOMEC"). BIOMEC was a biomedical device company based in Cleveland, OH. The results of BIOMEC's operations were included in our IMC business from the date of acquisition. The purchase price and other direct costs of BIOMEC totaled $11.4 million, which we paid in cash. Total assets acquired from BIOMEC were $12.0 million, of which $7.4 million were intangible assets, including $2.3 million of in-process research and development ("IPR&D"), which we immediately expensed, and $5.2 million of goodwill.

On June 15, 2007, we completed our acquisition of Enpath Medical, Inc. ("Enpath"). Enpath designs, develops, manufactures and markets single use medical device products for the cardiac rhythm management, neuromodulation and interventional radiology markets. The results of Enpath's operations were included in our IMC business from the date of acquisition. The purchase price and other direct costs of Enpath totaled $98.4 million, which we paid in cash. Total assets acquired from Enpath were $113.8 million, of which $91.3 million were intangible assets, including $13.8 million of IPR&D which we immediately expensed, and $48.9 million of goodwill.

On October 26, 2007 we acquired substantially all of the assets of IntelliSensing, LLC ("IntelliSensing"). IntelliSensing designs and manufactures wireless sensor solutions that measure temperature, pressure, flow and other critical data. The results of IntelliSensing's operations were included in our ECP business from the date of acquisition. The purchase price and other direct costs of IntelliSensing totaled $3.9 million, which we paid in cash. Total assets acquired from IntelliSensing were $4.0 million, of which $3.8 million were intangible assets, including $1.8 million of goodwill.

On November 16, 2007, we acquired substantially all of the assets of Quan Emerteq, LLC ("Quan Emerteq"). Quan Emerteq designs, develops and manufactures single use medical device products for the vascular, cardiac rhythm management ("CRM") and neurostimulation markets. The results of Quan's operations were included in our IMC business from the date of acquisition. The purchase price and other direct costs of Quan Emerteq totaled $60.1 million, which we primarily paid in cash. Total assets acquired from Quan Emerteq were $62.8 million, of which $52.4 million were intangible assets, including $32.2 million of goodwill.

On November 16, 2007, we acquired substantially all of the assets of Engineered Assemblies Corporation ("EAC"). EAC is a leading provider of custom battery solutions and electronics integration focused on rechargeable battery systems. The results of EAC's operations were included in our ECP business from the date of acquisition. The purchase price and other direct costs of EAC totaled $15.1

million, which we paid in cash. Total assets acquired from EAC were $16.7 million, of which $7.7 million were intangible assets, including $5.4 million of goodwill.

On January 4, 2008, we acquired P Medical Holding SA ("Precimed") located in Orvin, Switzerland and Exton, PA, with manufacturing operations throughout Switzerland and Indiana and sales offices in Japan, Asia and the United Kingdom. Precimed is a leading technology-driven supplier to the orthopedic industry.

On February 11, 2008, Precimed completed its previously announced acquisition of DePuy Orthopaedic's ("DePuy") Chaumont, France manufacturing facility. The Chaumont Facility produces hip and shoulder implants for DePuy Ireland who distributes them worldwide through various DePuy selling entities. This transaction included a new four year supply agreement with DePuy.

We acquired Precimed and the DePuy facility for approximately $130 million in cash, and a contingent payment based upon Precimed's 2008 earnings performance. These acquisitions were funded with cash on hand and availability under our revolving credit agreement (approximately $117 million). The results from the Precimed and DePuy acquisitions will be included in our 2008 results from the date of acquisition.

Going forward, we expect the pace of acquisitions to be less than the 2007 level. However, we will continue to pursue strategically targeted and opportunistic acquisitions.

Our Customers

Our products are designed to provide reliable, long lasting solutions that meet the evolving requirements and needs of our customers and the end users of their products. The nature and extent of our selling relationships with each customer are different in terms of breadth of products purchased, purchased product volumes, length of contractual commitment, ordering patterns, inventory management and selling prices.

Our IMC customers include leading IMD manufacturers, in alphabetical order here and throughout this report, such as Biotronik, Boston Scientific, Medtronic, the Sorin Group and St. Jude Medical. In 2007, Boston Scientific, Medtronic and St. Jude Medical collectively accounted for 67% of our total sales, compared to 67% in 2006 and 70% 2005. During 2007 and in the first quarter of 2008, we completed seven acquisitions, consistent with our strategic objective to diversify our customer base and market concentration. We anticipate in 2008 that we will reduce our concentration in the CRM market to approximately 50% of our total sales.

We entered into an agreement with Boston Scientific in June 2007 pursuant to which Boston Scientific will purchase a minimum percentage of batteries, wet tantalum capacitors and formed metal components at prices specified in the agreement. The period of the agreement is July 1, 2007 through December 31, 2010. Our previous agreement with Boston Scientific pursuant to which Boston Scientific purchased filtered feedthroughs scheduled to expire December 31, 2007 was extended through March 31, 2008. We are negotiating a follow-on agreement with targeted completion during the first quarter of 2008. Purchases and shipments of filtered feedthroughs continue during contract negotiations.

We have a supply agreement with St. Jude Medical pursuant to which St. Jude

Medical purchases batteries, filtered feedthroughs, molded components and enclosures under specified price and volume terms. A contract amendment signed in 2007 extended the contract term to December 31, 2013.

We have a supply agreement with Medtronic pursuant to which Medtronic will purchase implantable device shield sub-assemblies and other products under specified price and volume terms. The contract term is seven years, commencing August 2, 2004 and ending August 2, 2011.

Our ECP customers are primarily companies involved in oil and gas exploration, pipeline inspection, telematics, oceanographic equipment, seismic, communication, military and aerospace applications. We have entered into long-term supply agreements with some of those customers. Some of these customers include, General Electric, Halliburton Company, PathFinder Energy Services and Weatherford International.

Financial Overview

2007 was an extraordinary year in many respects and difficult in others. Despite a sluggish CRM market, we achieved record sales of $318.7 million for the year, an increase of 18% over last year. Excluding the $26.4 million of revenue that was contributed by our 2007 acquisitions, we achieved an 8% growth rate year over year.

Our earnings per share for 2007 totaled $0.67, which included $0.69 per share for IPR&D charges, $0.07 per share for other non-recurring acquisition related charges and $0.16 per share related to our cost savings and consolidation initiatives. 2007 results benefited from a $0.13 per share gain related to the exchange of a portion of our long-term debt during the year and a $0.12 per share gain from the sale of an investment security. Earnings per share for 2006 amounted to $0.73 and included $0.43 per share related to our cost savings and consolidation initiatives.

We completed five acquisitions in 2007 and two in the first two months of 2008. These acquisitions were enabled by our strong cash position and financing activities in the first half of 2007. We conducted an exchange offering for approximately $120 million of our old convertible notes, which extended the effective maturity from 2010 to 2013. At the same time, we issued an additional $80 million in new convertible notes. Additionally, in May 2007 we entered into a new credit facility which included a $235 million revolving line of credit, which can be increased to $335 million upon our request.

As of year-end our cash and short-term investments totaled $40.5 million, compared to $142.6 million at the end of 2006. During 2007, we spent approximately $190 million on the five acquisitions mentioned above. Our cash on hand and our availability under our line of credit are sufficient to meet our operating and investment activities for the foreseeable future, including our investment of approximately $130 million on the orthopedics' acquisitions completed in the beginning of 2008.

CEO Message

Over the past year, we have focused our strategic initiatives on creating a platform that can support additional growth. We remain steadfast in our mission of being a leader in the comprehensive design and manufacturing of technology based custom products for the commercial and implantable medical markets. We are poised to continue growing through innovation and strategic acquisitions that broaden our technology and market base.

In 2006, we operated primarily in the CRM and commercial power markets. As we moved into 2007, our focus shifted to the diversification and globalization of Greatbatch. Early in the year, we put in place over $400 million of available financing to facilitate this growth. This facilitated our acquisition of five companies in 2007 and two in early 2008, each complementing our existing business model and adding to our capabilities. These investments helped move us into new vertical markets while expanding our presence geographically.

To enhance our technological prowess and complement our growing medical operations, we purchased BIOMEC in April 2007. With specialties in infection and clotting control, BIOMEC provides us with enhanced design service capability and extends our customer reach from device concept through commercial manufacturing. With BIOMEC, we obtained a minority ownership in Intellect Medical, which has provided us with the important clinical relationships that improve our presence in the neurostimulation market.

In June 2007, we acquired Enpath. Enpath enhances our current IMC business by providing a platform to enter into the vascular market and broaden our neurostimulation markets. It also allows us to expand our current product offerings to existing customers and leverage a proprietary product portfolio.

With Quan Emerteq, we added substantial critical mass to the vascular product offerings acquired from Enpath. In addition, approximately 50% of Quan Emerteq's sales come from CRM and neurostimulation products, which further strengthen our position with current customers in these markets. Quan Emerteq also helps us enter the growing peripheral, coronary and neurovascular markets. Together, Quan Emerteq's and Enpath's capabilities create the basis for our Therapy Delivery product line. With the inception of our Therapy Delivery business we are now developing new products such as leadwires for the CRM and neurostimulation markets, and introducers, catheters and delivery systems for the vascular market.

We also entered the orthopedics market in early 2008 by acquiring Precimed and the follow-on acquisition of DePuy's Chaumont, France manufacturing facility. These acquisitions provided us with a major European manufacturing presence and multiple product offerings including trays, instruments and implants.

Electrochem, our commercial subsidiary, showed significant growth in 2006. To build on that momentum, we expanded Electrochem's capabilities to include battery-powered wireless sensing solutions, with the acquisition of IntelliSensing. This acquisition works well with our current oil and gas product offering and enables us to better serve our customers through a more comprehensive solution. In addition, we plan to leverage our wireless sensor capabilities into the medical market in the near future.

EAC was added to complement our commercial division as well. EAC designs and manufactures rechargeable battery pack solutions for customers in the external medical, communication, automatic data collection, and environmental and safety markets. EAC allows us to increase product offerings to our existing commercial customers and allows for expansion into the growing external medical market. It also increases our primary cell capabilities to include rechargeable batteries and design solutions.

While diversifying our markets, we simultaneously expanded geographically. Through our acquisitions, we added eleven new locations throughout the world. Our newly developed presence in six U.S. cities, Switzerland, France, China, Japan and the United Kingdom better equips us to serve existing customers while pursuing untapped markets.

I consider the positive impact our growth has had on our customers to be a significant accomplishment. With new vertical markets and expanded offerings in CRM and commercial, we are able not only to develop new customers but also to offer current customers a more comprehensive product portfolio.

Our measures to diversify has brought many new faces to Greatbatch over the past year and helped to reposition the responsibilities of several long-standing leadership team members. Our organizational restructuring has led to the creation of a strong management team, one that will be responsible for leading Greatbatch into 2008 and beyond. With a platform focused on integration, our business leaders will not only work to strengthen their units, but together, work to improve the overall strength of Greatbatch.

Cost Savings and Consolidation Efforts

During 2007, 2006 and 2005, we recorded charges in other operating expenses related to our ongoing cost savings and consolidation efforts. Additional information is set forth in Note 11 - "Other Operating Expenses" of the Notes to the Consolidated Financial Statements contained in Item 8 of this report.

Alden Facility Consolidation. Beginning in the first quarter of 2005 and ending in the second quarter of 2006 we consolidated our medical capacitor manufacturing operations in Cheektowaga, NY, and our implantable medical battery manufacturing operations in Clarence, NY, into our advanced power source manufacturing facility in Alden, NY ("Alden facility"). We also consolidated the capacitor research, development and engineering operations from our Cheektowaga, NY facility into our Technology Center in Clarence, NY.

The total expense for these consolidation efforts was $3.4 million, which was below our original estimate of $3.5 million to $4.0 million. The expenses for the Alden Facility consolidation are included in the IMC business segment. Approximately $2.6 million of these charges were paid in cash and $0.8 million were for assets written-off.

Carson City Facility Shutdown and Tijuana Facility Consolidation No. 1. Beginning in the first quarter of 2005 and ending in the third quarter of 2007 we consolidated our Carson City, NV facility ("Carson City Facility") into our Tijuana, Mexico facility ("Tijuana Facility consolidation No. 1").

The total cost for this consolidation was $7.5 million, which was above our original estimates as we delayed the closing of this facility in order to accommodate a customer's regulatory approval. All categories of costs are considered to be cash expenditures, except for $0.6 million of accelerated depreciation.

We anticipate annual cost savings in the range of $2.5 million to $3.1 million. The expenses for our Carson City Facility shutdown and the Tijuana Facility consolidation No. 1 are included in our IMC business segment.

Columbia Facility & ARL Shutdown, Tijuana Facility Consolidation No. 2, and RD&E Consolidation. On November 16, 2005, we announced our intent to close both our Columbia, MD facility ("Columbia Facility") and our Fremont, CA Advanced Research Laboratory ("ARL"). The manufacturing operations at our Columbia Facility will be moved into our Tijuana Facility ("Tijuana Facility consolidation No. 2"). The research, development and engineering ("RD&E") and product development functions at the Columbia Facility and at ARL were relocated

to our Technology Center in Clarence, NY. The Columbia Facility shutdown, which was previously scheduled to be completed in the first quarter of 2008, is now expected to be finalized in mid-2008 based on customer qualification activities.

The total estimated cost for this facility consolidation plan is anticipated to be between $11.6 million and $12.1 million of which $10.6 million has been incurred through December 28, 2007. The ARL move and closure portion of this consolidation project is complete. We expect to incur and pay the remaining costs of the consolidation project over the next three fiscal quarters through September 2008. All categories of costs are considered to be cash expenditures, except for $0.5 million of accelerated depreciation and asset write-offs. Once the moves are completed, we anticipate annual cost savings in the range of $5.0 million to $6.0 million. The expenses for the Columbia Facility and ARL shutdowns, the Tijuana Facility consolidation No. 2 and the RD&E consolidation are included in the IMC business segment.

Electrochem Commercial Power expansion. In February 2007, we announced that we will close our current manufacturing facility in Canton, MA and construct a new 80,000 square foot replacement facility in Raynham, MA. The expected completion of this $28 million expansion project is in the fourth quarter of 2008. The total expense to be recognized for this relocation is estimated to be $2.4 million to $2.6 million, of which $0.5 million has been incurred, and primarily related to accelerated depreciation. All categories of costs are considered to be cash expenditures, except for $0.6 million of accelerated depreciation. Costs related to this move are included in the ECP business segment.

Severance. During the fourth quarter of 2006, we implemented a plan for consolidating our corporate and business unit organization structure. As a result, severance charges of $2.49 million were recorded in the fourth quarter of 2006. Expense of $1.42 million was recorded in our IMC segment, $0.04 million in the ECP segment and $1.03 million was recorded in unallocated operating expenses. Accrued severance related to this consolidation plan was $0.3 million as of December 28, 2007 and was paid in the first quarter of 2008.

During the first quarter of 2005, we implemented a 4% workforce reduction as a continuation of cost containment efforts initiated mid-year 2004. As a result, severance charges of $1.5 million were recorded and paid in 2005. Expense of $0.9 million was recorded in our IMC segment, $0.2 million in our ECP segment and $0.4 million was recorded in unallocated operating expenses.

Our Critical Accounting Estimates

The preparation of our consolidated financial statements in accordance with generally accepted accounting principles in the United States of America ("GAAP") requires us to make estimates and assumptions that affect reported amounts and related disclosures. The methods, estimates and judgments we use in applying our accounting policies have a significant impact on the results we report in our financial statements. Management considers an accounting estimate to be critical if:

- It requires assumptions to be made that were uncertain at the time the estimate was made; and
- Changes in the estimate or different estimates that could have been selected could have a material impact on our consolidated results of operations, financial position or cash flows.

Our most critical accounting estimates are described below. We also have other

policies that we consider key accounting policies, such as our policies for revenue recognition; however, these policies do not meet the definition of critical accounting estimates, because they do not generally require us to make estimates or judgments that are difficult or subjective.

Balance Sheet Caption / Nature of Critical Estimate Item	Assumptions / Approach Used	Effect of Var
Valuation of Goodwill, other identifiable intangible assets and IPR&D When we acquire a company, we allocate the purchase price to the assets we acquire and liabilities we assume based on their fair value at the date of acquisition. We then allocate the purchase price in excess of net tangible assets acquired to identifiable intangible assets, including IPR&D. Other indefinite lived intangible assets such as trademarks and tradenames are considered non-amortizing intangible assets as they are expected to generate cash flows indefinitely. Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Indefinite lived intangibles and goodwill are required to be assessed for impairment on an annual basis or more frequent if certain indicators are present.	We base the fair value of identifiable tangible and intangible assets (including IPR&D) on detailed valuations that use information and assumptions provided by management. The fair values of the assets acquired and liabilities assumed are determined using one of three valuation approaches: market, income and cost. The selection of a particular method for a given asset depends on the reliability of available data and the nature of the asset, among other considerations. The market approach values the subject asset based on available market pricing for comparable assets. The income approach values the subject asset based on the present value of risk adjusted cash flows projected to be generated by the asset. The projected cash flows for each asset considers multiple factors, including current revenue from existing customers, attrition trends, reasonable contract renewal assumptions from the perspective of a marketplace participant, and expected profit margins giving consideration to historical and expected margins. The cost approach values the subject asset by determining the current cost of replacing that asset with another of equivalent economic utility. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the asset, less an allowance for loss in value due to depreciation or obsolescence, with specific consideration given to economic obsolescence if indicated. We perform an annual review on the last day of each fiscal year, or more frequently if indicators of potential impairment exist, to determine if the	The use of al including est rates, and al assumptions c purchase pric the value of consider amon projects stag of the work c date; the pro expected intr useful life o changes in th could impact liabilities r amount and ti amortization We make certa that affect t future cash f for our goodw estimates and growth, cost projections o changes in th could create goodwill. For indefinit trademarks an estimates of and other fut Significant c create future lived intangi A 1% change i intangible as current year $0.04 million diluted share have $352.4 m

	recorded goodwill and other indefinite lived intangible assets are impaired. We assess goodwill for impairment by comparing the fair value of our reporting units to their carrying value to determine if there is potential impairment. If the fair value of a reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the implied fair value of the goodwill within the reporting unit is less than its carrying value. Fair values for reporting units are determined based primarily on the income approach, however where appropriate, the market approach or appraised values are also used. Identifiable intangible assets such as purchased technology, patents and customer lists are reviewed at least annually to determine if any adverse conditions exist or a change in circumstances has occurred that would indicate impairment or a change in their remaining useful life indefinite lived intangible assets such as trademarks and tradenames are evaluated for impairment by using the income approach.	recorded on o 53% of total $71.3 million assets, $32.6 intangible as goodwill.

Balance Sheet Caption / Nature of Critical Estimate Item	Assumptions / Approach Used	Effect of Var
Stock-based compensation Prior to fiscal year 2006, we accounted for stock options following the requirements of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, which did not require us to record compensation expense for fixed stock options if the exercise price of the option equaled or exceeded the fair market value of our stock at the grant date. For restricted stock awards, the fair market value of the award was recorded to compensation expense on a straight-line	We utilize the Black-Scholes Options Pricing Model to determine the fair value of stock options under SFAS No. 123(R), consistent with that used for pro forma disclosures prior to 2006. We are required to make certain assumptions with respect to selected model inputs, including expected volatility, expected life, expected dividend yield and the risk-free interest rate. Expected volatility is based on the historical volatility of our stock over the most recent period commensurate with the estimated expected life of the stock options. The expected life of options granted, which represents the period of time that the options are expected to be	Option pricin in estimating that have no fully transfe payments have different fro options, and subjective in affect out es valuation mod measures of t shared-based there is a ri fair values o awards may be actual values expiration or shared-based

basis over the vesting period.

Beginning in fiscal year 2006, we adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123(R)"), and related Securities and Exchange Commission rules included in Staff Accounting Bulletin No. 107. Under SFAS No. 123(R) we are now required to record compensation costs related to all stock-based awards.

Compensation cost for service-based stock options and restricted stock awards is recognized ratably over the applicable vesting period. Compensation cost for performance-based stock options and restricted stock units is reassessed each period and recognized based upon the probability that the performance targets will be achieved.

outstanding, is based, primarily, on historical data. The expected dividend yield is based on our history and expectation dividend payouts. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for a period commensurate with the estimated expected life.

For restricted stock awards, the fair market value of the award is determined based upon the closing value of our stock price on the grant date.

Compensation cost for performance-based stock options and restricted stock units is reassessed each period and recognized based upon the probability that the performance targets will be achieved. That assessment is based upon our actual and expected future performance as well as that of the individuals who have been granted performance-based awards. Stock-based compensation expense is only recorded for those awards that are expected to vest. Forfeiture estimates for determining appropriate stock-based compensation expense are estimated at the time of grant based on historical experience and demographic characteristics. Revisions are made to those estimates in subsequent periods if actual forfeitures differ from estimated forfeitures.

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Balance Sheet Caption / Nature of Critical Estimate Item	Assumptions / Approach Used	Effect of Var
Inventories Inventories are stated at the lower of cost, determined using the	Inventory standard costing requires complex calculations that include assumptions for overhead absorption, scrap, sample calculations,	Variations in have a materi demand foreca greater than

first-in, first-out method, or market.	manufacturing yield estimates and the determination of which costs are capitalizable. The valuation of inventory requires us to estimate obsolete or excess inventory as well as inventory that is not of saleable quality.	reduce manufa could be requ inventory res negative impa A 1% change i amortization increase/decr approximately $0.06 per dil 2007 we have recorded on o 11% of total
Long-lived assets Property, plant and equipment, definite-lived intangible assets, and other long-lived assets are carried at cost. This cost is charged to depreciation or amortization expense over the estimated life of the operating assets primarily using straight-line rates. Long-lived assets acquired through acquisition are subject to the estimation risks related to the initial purchase price allocation and the on-going impairment assessment. Long-lived assets acquired in the ordinary course of business are also subject to impairment assessment.	We assess the impairment of long-lived assets when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Factors that we consider in deciding when to perform an impairment review include significant under-performance of a business or product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in our use of the assets. Recoverability potential is measured by comparing the carrying amount of the asset group to the related total future undiscounted cash flows. If an asset group's carrying value is not recoverable through related cash flows, the asset group is considered to be impaired. Impairment is measured by comparing the asset group's carrying amount to its fair value, based on the best information available, including market prices or discounted cash flow analyses. When it is determined that useful lives of assets are shorter than originally estimated, and there are sufficient cash flows to support the carrying value of the asset group, we accelerate the rate of depreciation in order to fully depreciate the assets over their new shorter useful lives.	Estimation of that are long management ju including cha materially af assumptions r amortization. operations or alter the ass to realize th in long-lived of depreciati both current make manufact other factory make subjecti remaining use primarily man building impr these estimat the amount of amortization impairments o A 1% change i depreciation/ increase/decr approximately $0.01 per dil 2007 we have assets record representing

Balance Sheet Caption / Nature of Critical	Assumptions / Approach Used	Effect of Var

Estimate Item		
Provision for income taxes In accordance with the liability method of accounting for income taxes specified in SFAS No. 109, Accounting for Income Taxes, the provision for income taxes is the sum of income taxes both currently payable and deferred. The changes in deferred tax assets and liabilities are determined based upon the changes in differences between the bases of assets and liabilities for financial reporting purposes and the tax bases of assets and liabilities as measured by the enacted tax rates that management estimates will be in effect when the differences reverse. Beginning in 2007, we adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109 ("FIN No. 48"), to assess and record income tax uncertainties. FIN No. 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on various related matters such as derecognition, interest and penalties, and disclosure.	In relation to recording the provision for income taxes, management must estimate the future tax rates applicable to the reversal of temporary differences, make certain assumptions regarding whether book/tax differences are permanent or temporary and if temporary, the related timing of expected reversal. Also, estimates are made as to whether taxable operating income in future periods will be sufficient to fully recognize any gross deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. Alternatively, we may make estimates about the potential usage of deferred tax assets that decrease our valuation allowances. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. Significant judgment is required in evaluating our tax positions and determining our provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We establish reserves for uncertain tax positions when we believe that certain tax positions do not meet the more likely than not threshold. We adjust these reserves in light of changing facts and circumstances, such as the outcome of a tax audit or the lapse of the statute of limitations. The provision for income taxes includes the impact of reserve provisions and changes to the reserves that are considered appropriate. We follow FIN No. 48 for accounting for our uncertain tax positions.	Changes could affect our es regarding def tax laws and valuation of liabilities, tax provision taxable incom realizable va At December 2 deferred tax a valuation a been establis assets as it they will not A 1% increase increase the $0.3 million, share by $0.0 December 28,

Our Financial Results

The commentary that follows should be read in conjunction with our consolidated

financial statements and related notes. We utilize a fifty-two, fifty-three week fiscal year ending on the Friday nearest December 31st. Fiscal years 2007, 2006 and 2005 ended on December 28, December 29 and December 30, respectively.

Results of Operations Table

Dollars in thousands, except per share data	Yead ended Dec.28, 2007	Dec. 29, 2006	Dec.30, 2005	2007-2006 $ Change	% C
IMC					
ICD batteries	$ 48,946	$ 45,140	$ 45,803	$ 3,806	
Pacemaker and other batteries	20,964	21,090	21,708	(126)	
ICD capacitors	26,466	16,780	20,709	9,686	
Feedthroughs	64,999	64,578	59,210	421	
Introducers, catheters and leads	23,287	-	-	23,287	
Enclosures	20,777	23,904	23,866	(3,127)	
Other	64,383	55,915	36,618	8,468	
Total IMC	269,822	227,407	207,914	42,415	
ECP	48,924	43,735	33,183	5,189	
Total sales	318,746	271,142	241,097	47,604	
Cost of sales - excluding amortizaton of intangible assets	198,184	164,885	151,543	33,299	
Cost of sales - amortization of intangible assets	4,537	3,813	3,841	724	
Total cost of sales	202,721	168,698	155,384	34,023	
Cost of sales as a % of sales	63.6%	62.2%	64.4%		
Selling, general, and administrative expenses	44,674	38,785	31,528	5,889	
SG&A as a % of sales	14.0%	14.3%	13.1%		
Research, development and engineering costs, net	29,914	24,225	18,725	5,689	
RD&E as a % of sales	9.4%	8.9%	7.8%		
Other operating expense	21,417	17,058	18,574	4,359	
Operating income	20, 020	22,376	16,886	(2.356)	
Operating margin	6.3%	8.3%	7.0%		
Interest expense	7,303	4,605	4,613	2,698	
Interest income	(7,050)	(5,775)	(3,113)	(1,275)	
Gain on sale of investment security	(4,001)	-	-	(4,001)	
Gain on extinguishment of debt	(4,473)	-	-	(4,473)	
Other (income) expense, net	(447)	12	(78)	(459)	
Provision for income taxes	13,638	7,408	5,357	6,230	
Effective tax rate	47.5%	31.5%	34.6%		
Net income	$ 15,050	$ 16,126	$ 10,107	$ (1,076)	
Net margin	4.7%	5.9%	4.2%		
Diluted earnings per share	$ 0.67	$ 0.73	$ 0.46	$ (0.06)	

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Fiscal 2007 Compared with Fiscal 2006

Sales

We achieved sales growth of 18% in 2007 compared to 2006. This growth was achieved through acquisitions and organic growth of 8%. This growth came during a period in which the CRM industry continued to recover from a difficult 2006. Our acquisitions which expanded our product lines and diversified our customer base represented a 10% increase in revenue.

IMC. The nature and extent of our selling relationship with our customers is different in terms of products purchased, selling prices, product volumes, ordering patterns and inventory management. We have pricing arrangements with our customers that at times do not specify minimum order quantities. Our visibility to customer ordering patterns is over a relatively short period of time. Our customers may have inventory management programs and alternate supply arrangements of which we are unaware. Additionally, the relative market share among the OEM device manufacturers changes periodically. Consequently, these and other factors can significantly impact our sales in any given period.

We achieved year-over-year growth of 19% in our IMC business despite our underlying markets growing at a low-single digit pace and an approximate 1% net reduction in selling prices. Our acquisitions represented a 10% increase in IMC revenue. ICD capacitors, ICD batteries, assembly products and coated electrodes were the primary growth drivers. ICD capacitor sales increased due to a non-recurring customer supply issue in the first half of the year. Growth in ICD batteries was primarily due to increased sales of our "Q" technology battery which was introduced near the end of 2006, partially offset by lower prices. This growth represents increased adoption of our high rate battery technology. We expect pricing pressure from our larger customers to continue in the future.

Consistent with our strategy to increase the integration of our component products (including enclosures) into our assembly business, assembly revenues, which are included in Other IMC revenue, increased by 48% in 2007. Correspondingly, revenues from enclosures decreased by 13% over the same period. In addition to the above, the increase in assembly sales reflected an increase in price due to contractual agreements related to material price increases.

ECP. Similar to IMC customers, we have pricing arrangements with our customers that many times do not specify minimum quantities. Our visibility to customer ordering patterns is over a relatively short period of time as most customers utilize short term purchase orders as opposed to long-term contracts.

ECP sales grew by 12% in 2007 through a combination of increased market penetration, new product introductions, greater value-added pack assembly and acquisitions. Our acquisitions represented a 7% increase in ECP revenue. The core growth rate slowed from the prior year partially due to the favorable benefit of approximately $1.5 to $2.5 million in customer inventory stocking in 2006 as it consolidated operations.

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The oil and gas exploration market remains robust due to the increased demand for products used in pipeline inspections, pressure monitoring and measurement while drilling applications. In addition, our presence in the rechargeable cells

market will provide incremental sales opportunities.

2008 Sales Outlook

Including the acquisitions in 2007 and early 2008, we expect our full year 2008 sales will be in the range of $490 million to $530 million. Our newly acquired therapy delivery and orthopedic companies are forecasting 10% to 12% growth over their previous year results, respectively. We have assumed an underlying CRM market growth rate of 5% for next year.

Cost of Sales - Excluding Amortization of Intangible Assets

Changes from the prior year to cost of sales as a percentage of sales, excluding the amortization of intangible assets, were primarily due to the following:

	2007-2006 % Increase
Price reduction (a)	0.5%
Inventory step-up (b)	0.5%
Excess capacity at Columbia Facility (c)	0.4%
Total percentage point change to cost of sales as a percentage of sales	1.4%

a. This increase was primarily due to contractual price concessions negotiated with our larger customers. Price reductions were negotiated in exchange for longer term commitments, primarily in the IMC segment.
b. In connection with our acquisitions, the value of inventory on hand was stepped-up to reflect the fair value at the time of acquisition. The inventory step-up amortization, which is recorded as cost of sales - excluding intangible amortization, was $1.7 million. As of December 28, 2007, $0.4 million of inventory step up is remaining to be amortized, which does not include the value of the inventory step-up related to the acquisitions in early 2008.
c. The Columbia Facility was operating with excess capacity during 2007 as its production transitioned to our Tijuana, Mexico Facility. The excess capacity cost is approximately $1.2 million. In accordance with our inventory accounting policy, excess capacity costs are expensed.

We expect cost of sales as a percentage of sales to benefit in future years due to our consolidation efforts and the elimination of excess capacity, partially offset by a continuing shift in product mix towards lower margin products.

Cost of Sales - Amortization of Intangible Assets

Amortization expense for 2007 increased from 2006 due to an increase in intangible assets acquired as part of the Enpath, Quan Emerteq and EAC acquisitions. The increase represents a partial year of amortization related to our 2007 acquisitions. In 2008, cost of sales - amortization of intangible assets is expected to increase to $6.0 million, due to the full year impact of the acquisitions in 2007 and does not include intangible assets that will be recorded in connection with our acquisitions in early 2008.

SG&A Expenses

Changes from the prior year to SG&A expenses were primarily due to the following (in millions):

	2007-2006 $ Increase
Headcount increases associated with acquisitions (a)	$ 3.8
Amortization (b)	1.0
Increased sales and marketing workforce (c)	0.9
Increased legal expense (d)	0.5
Other	(0.3)
Net increase in SG&A	$ 5.9

a. Personnel working for the acquired companies in functional areas such as Finance, Human Resources and Information Technology were the primary drivers of this increase. The remaining increase was for consulting, travel and other administrative expenses to operate these areas.
b. Relates to the amortization of customer relationships and non-compete agreements recorded as a result of our acquisitions in 2007.
c. The increase in sales and marketing workforce was primarily a result of our planned efforts to increase the marketing and sales of our products.
d. The increase in legal expense is primarily due to increased staffing levels and activity related to customer contract renewals during the year.

SG&A expenses as a percentage of sales are expected to remain constant in the near term and improve over the long-term as synergies from our acquisitions are realized.

RD&E Expenses

Net research, development and engineering costs were as follows (in millions):

	Year ended	
	December 28, 2007	December 29, 2006
Research and development costs	$ 16.1	$ 16.1
Engineering costs	18.9	9.9
Less cost reimbursements	(5.1)	(1.8)
Engineering costs, net	13.8	8.1
Total research and development and engineering costs, net	$ 29.9	$ 24.2

The increase in RD&E expenses for 2007 was primarily due to the planned headcount increase in engineering personnel as we continue to invest substantial resources in product technologies. Additionally, $4.8 million of engineering costs were a result of the Enpath and BIOMEC acquisitions. Reimbursement on product development projects increased compared to last year primarily due to the timing of the achievement of milestones, as well as the Enpath and BIOMEC acquisitions, which added $2.6 million of cost reimbursements. Reimbursements for achieving certain development milestones are netted against gross spending.

RD&E expenses as a percentage of sales are expected to remain constant, reflecting our continued development of and investment in core product technologies. In the future, cost reimbursements generated from various government grants will be lower as the grants acquired from BIOMEC are scheduled to expire in 2008.

Other Operating Expenses

Acquired In-Process Research and Development - Approximately $2.3 million and $13.8 million of the BIOMEC and Enpath purchase prices, respectively, represent the estimated fair value of IPR&D projects acquired from those companies. These projects had not yet reached technological feasibility and had no alternative future use as of the acquisition date, thus were immediately expensed on the date of acquisition. The IPR&D written off in connection with the Enpath acquisition is not deductible for tax purposes. Additional information regarding these projects is set forth in Note 2 -- "Acquisitions" of the Notes to the Consolidated Financial Statements contained in Item 8 of this report.

We are currently in the process of performing a valuation of the assets and liabilities of the Companies acquired in 2008. At this time, we have not determined if any IPR&D charge will result from this valuation.

The remaining other operating expenses are as follows (in millions):

	Year Ended	
	December 28, 2007	December 29, 2006
Alden facility consolidation (a)	$ -	$ 0.6
Carson City facility shutdown and Tijuana facility consolidation No. 1 (a)	0.3	2.7
Columbia facility shutdown, Tijuana facility consolidation No. 2 and RD&E consolidation (a)	4.4	5.1
Electrochem Commercial Power ("ECP") expansion (a)	0.5	-
Asset dispositions and other (b)	0.1	6.2
Severance (a)	-	2.5
	$ 5.3	$ 17.1

(a) Refer to the "Cost Savings and Consolidation Efforts" section of this Item for disclosure related to the timing and level of remaining expenditures for these items as of December 28, 2007.

(b) During 2007, we had various asset disposals which were offset by $0.5 million of insurance proceeds on previously disposed assets. During 2006, we recorded a loss of $4.4 million related to the write-off of a battery test system that was under development. Upon completion of our engineering and technical evaluation, it was determined that the system could not meet the required specifications in a cost effective manner. This charge was included in the IMC business segment. The remaining expense for 2006 includes charges for various asset dispositions and $0.8 million for professional fees related to a potential acquisition that was no longer considered probable.

In 2008 plant relocation and asset disposition expenses are expected to be approximately $4.5 million to $5.2 million.

Interest Expense and Interest Income

Interest expense for 2007 is higher than the prior year period primarily due to the additional $80 million of 2.25% convertible notes issued at the end of the first quarter of 2007 and additional amortization of deferred fees and discounts associated with these notes and the notes exchanged at that time. See Note 8 - "Debt" of the Notes to the Consolidated Financial Statements in this Form 10-K for additional information about our long-term debt obligations. Going forward, interest expense will be higher as a result of the $117 million we borrowed in connection with our acquisitions in early 2008.

Interest income for 2007 increased in comparison to 2006 primarily due to increased cash, cash equivalents and short-term investment balances, as well as higher rates earned. In the future, interest income will be lower as a result of the cash deployed in connection with our 2007 acquisitions and acquisitions in early 2008.

Gain on sale of investment security

In the second quarter of 2007, we sold an investment security which resulted in a pre-tax gain of $4.0 million ($2.6 million net of tax) or $0.12 per diluted share.

Gain on extinguishment of debt

In the first quarter of 2007, we exchanged $117.8 million of our original $170.0 million of 2.25% convertible subordinated notes due 2013 ("CSN I") for an equivalent principal amount of a new series of 2.25% convertible subordinated notes due 2013. The primary purpose of this transaction was to eliminate the June 15, 2010 call and put option that is included in the terms of the exchanged CSN I. We accounted for this exchange as an extinguishment of debt, which resulted in a net pre-tax gain of $4.5 million ($2.9 million net of tax) or $0.13 per diluted share.

Other (income) expense, net

In December 2007, we entered into a forward contract to purchase 80,000,000 Swiss Francs ("CHF"), at an exchange rate of 1.1389 CHF per one U.S. dollar, in order to partially fund our acquisition of Precimed, which closed in January 2008 and was payable in Swiss Francs. In January 2008, we entered into an additional forward contract to purchase 20,000,000 CHF at an exchange rate of 1.1156 per one U.S. dollar. We entered into a similar foreign exchange contract in January 2008 in order to fund our acquisition of DePuy's Chaumont, France facility, which closed in February 2008 and was payable in Euros. The net result of the above transactions was a gain of $2.4 million, $0.8 million of which was recorded in 2007 (based upon the fair value of the forward contract at December 28, 2007) as Other Income and the remainder will be recorded in the first quarter of 2008.

Provision for Income Taxes

Our effective tax rate is higher than the U.S. statutory rate primarily as a result of the IPR&D charge from the acquisition of Enpath, which is non-deductible for income tax purposes. As a result, our effective tax rate was 47.5% in 2007. Excluding this IPR&D charge, our effective tax rate was consistent with 2006. We expect our effective tax rate in 2008 to be more in

line with the 35% U.S. statutory rate. This excludes the impact of any IPR&D charges which may result from our 2008 acquisitions.

Fiscal 2006 Compared with Fiscal 2005

Sales

We achieved sales growth of 12% in 2006 compared to 2005. This growth was accomplished during a period in which the underlying CRM market, which represents over 80% of our total sales, was in decline. This growth is even more favorable considering that 2005 results include the favorable benefit of approximately $10.0 million to $15.0 million in ICD marketplace field actions. Another sales highlight for 2006 was our ECP business, which grew 32% through a combination of increased market penetration, new product introductions and greater value-added pack assembly.

IMC. We achieved year-over-year growth of 9% from our medical business. This growth was accomplished despite the underlying CRM market being down compared to the prior year and an approximate 2% reduction in selling prices. Assembly products, feedthroughs, coated electrodes and machined components were the primary growth drivers. The assembly business was a new opportunity that was launched in the second half of 2005. Growth in feedthroughs, coated products and machined components represents market share penetration with both our domestic and international customers.

Our ICD battery product line declined by 1% during 2006, commensurate with the market and the market share shifts among our customers. The decline in sales was primarily due to lower volume with U.S. based customers and the approximate 2% reduction in selling prices, partially offset by strong European customer sales. This growth represents increased adoption of our high rate battery technology.

The capacitor business also experienced a decline in sales. Capacitor sales declined by $4 million or 19%, primarily attributable to the actions taken by a single customer in late 2005 to further vertically integrate its operations.

ECP. ECP sales grew by 32% in 2006 through a combination of increased market penetration, new product introductions and greater value-added pack assembly. The oil and gas exploration was robust in 2006 due to the increased demand for products used in pipeline inspections, pressure monitoring and measurement while drilling applications. In addition, our presence in the telematics market provided incremental sales opportunities.

Cost of Sales

Changes from the prior year to cost of sales as a percentage of sales were due to the following:

	2006-2005 % Increase
Production efficiencies primarily associated with higher volumes (a)	-6.5%
Excess capacity at wet tantalum capacitor facility (b)	-0.8%
Excess capacity at Tijuana, Mexico facility (c)	0.4%
Mix change (d)	4.2%
Other	0.5%
Total percentage point change to cost of sales as a percentage of sales	-2.2%

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a. This decrease in cost of sales was primarily due to the fact that as production volumes increase, fixed costs such as plant overhead and depreciation do not increase at the same rate. The production volume increase was necessary to accommodate the increased sales and to replenish safety stocks.
b. During 2005, the capacitor facility was not being utilized to its full capacity. The cost associated with the excess capacity was eliminated in 2006 as capacitor manufacturing was consolidated into the Alden Facility.
c. The Tijuana, Mexico facility was new in 2005 and its infrastructure and floor space were coming on line during 2005 and therefore the full cost of the capacity was not in place. In 2006, the Tijuana facility was on-line for the entire year and excess capacity costs in 2006 exceeded those in 2005.
d. The revenue increase from 2005 was primarily in other IMC sales, which generally have lower margins.

Cost of Sales - Amortization of Intangible Assets

Amortization expense for 2006 was consistent with 2005.

SG&A Expenses

Changes from the prior year to SG&A expenses were primarily due to the following (in millions):

	December 29, 2006
SFAS No. 123(R) stock-based compensation expense (a)	$ 3.2
CEO transition and retirement expenses (b)	1.2
Information technology (c)	1.2
Increased sales and marketing workforce (d)	0.5
Director fees (e)	0.4
Other	0.8
Net increase in SG&A	$ 7.3

a. As a result of the adoption of SFAS No. 123(R), we began expensing stock options in 2006, which had a material impact on SG&A costs.
b. Amounts relate to the additional stock-based compensation costs recorded in connection with the retirement and replacement of our former CEO and former Senior Vice President of Administration. These costs were recorded due to acceleration provisions in our executive retirement guidelines as well as costs associated with additional grants awarded to facilitate the transition.
c. The increase in information technology costs was a result of our continuing investment in the infrastructure of our Company in order to support our growth.
d. The increased workforce expense was primarily a result of our efforts to increase the marketing and sales of our products.
e. The increase in Director fees primarily relates to the adoption of a new Director compensation program in 2006. This program was designed and approved by the Corporate Governance Committee of the Board of Directors.

RD&E Expenses

Net research, development and engineering costs were as follows (in millions):

	Year ended	
	December 29, 2006	December 30, 2005
Research and development costs	$ 16.1	$ 17.1
Engineering costs	9.9	5.5
Less cost reimbursements	(1.8)	(3.9)
Engineering costs, net	8.1	1.6
Total research and development and engineering costs, net	$ 24.2	$ 18.7

The increase in RD&E expenses for 2006 was primarily due to the planned headcount increase in engineering personnel costs, as we continue to invest substantial resources to develop new products. Reimbursement on product development projects decreased compared to last year primarily due to the achievement of significant milestones on one large project in 2005 that did not reoccur in 2006.

Other Operating Expenses

Other operating expenses are as follows (in millions):

	Year Ended	
	December 29, 2006	December 30, 2005
Alden facility consolidation (a)	$ 0.6	$ 2.8
Carson City facility shutdown and Tijuana facility consolidation No. 1 (a)	2.7	4.5
Columbia facility shutdown, Tijuana facility consolidation No. 2 and RD&E consolidation (a)	5.1	1.1
Tijuana facility start-up (b)	-	1.4
Asset dispositions and other (c)	6.2	7.3
Severance (a)	2.5	1.5
	$ 17.1	$ 18.6

(a) Refer to "Cost Savings and Consolidation Efforts" of this Item for disclosure related to the timing and level of remaining expenditures for these items as of December 29, 2006.

(b) Other Tijuana facility start-up expenses (not associated with the Carson City facility or Columbia Facility consolidations) during 2005 amounted to $1.4 million. These expenses are primarily related to the initial start-up of the value-added assembly business.

(c) During 2006, we recorded a loss of $4.4 million related to the write-off of a battery test system that was under development. Upon completion of our engineering and technical evaluation, it was determined that the system

could not meet the required specifications in a cost effective manner. This charge was included in the IMC business segment. The remaining expense for 2006 includes charges for various asset dispositions and $0.8 million for professional fees related to a potential acquisition that was no longer considered probable.

During 2005, a $2.8 million charge was recorded for the write-down of automated cathode assembly equipment for the IMC segment. The remaining expense for 2005 relates to various asset dispositions of approximately $3.3 million and the cost to exit a development agreement of $1.2 million.

Interest Expense and Interest Income

Interest expense was consistent with 2005, and is primarily related to the contingent convertible notes. Interest income increased during 2006 in comparison to 2005 due to higher interest rates on higher cash and short-term investment balances.

Provision for Income Taxes

Our effective tax rate is lower than the U.S. statutory rate due to the allowable Extraterritorial Income Exclusion ("ETI"), the Qualified Production Activities Deduction and the Federal Research and Development Credit. In 2006, the net ETI benefits had a greater impact on the effective tax rate than in 2005. As a result, our effective tax rate was reduced to 31.5% in 2006 compared to 34.6% in 2005.

Liquidity and Capital Resources

(Dollars in millions)	As of December 28, 2007	December 29, 2006
Cash and cash equivalents and short-term investments (a)	$ 40.5	$ 142.6
Working capital(b)	$ 116.8	$ 199.1
Current ratio	2.8:1.0	5.7:1.0

a. Short-term investments in 2007 consist of municipal, U.S. Government Agency and corporate notes and bonds acquired with maturities that exceed three months. Short-term investments in 2006 also included auction rate securities and equity securities.
b. Working capital decreased by approximately $82.3 million primarily due to a $102.1 million decrease in cash and cash equivalents and short-term investments. Net cash provided by operating activities of $43.0 and financing activities of $65.2 million were offset by $208.1 million of expenditures related to our acquisition activity in 2007 and capital purchases.

Revolving line of credit

In May 2007, we entered into a new senior credit facility (the "New Credit Facility") consisting of a $235 million revolving credit facility, which can be increased to $335 million upon our request and approval of a simple majority of the lenders. The New Credit Facility also contains a $15 million letter of credit subfacility and a $15 million swingline subfacility. This New Credit Facility replaced our previous $50 million revolving credit facility. The New

Credit Facility is secured by our non-realty assets including cash, accounts and notes receivable, and inventories and has an expiration date of May 22, 2012 with a one-time option to extend to April 1, 2013 if no default has occurred. Interest rates under the New Credit Facility are, at our option, based upon the current prime rate or the LIBOR plus a margin that varies with our leverage ratio. If interest is paid based upon the prime rate, the applicable margin is between minus 1.25% and 0.00%. If interest is paid based upon the LIBOR, the applicable margin is between 1.00% and 2.00%. We are required to pay a commitment fee between 0.125% and 0.250% per annum on the unused portion of the New Credit Facility based on our leverage ratio.

The New Credit Facility contains limitations on the incurrence of indebtedness, limitations on the incurrence of liens and licensing of intellectual property, limitations on investments and restrictions on certain payments. Except to the extent paid for by common equity of Greatbatch or paid for out of cash on hand, the New Credit Facility limits the amount paid for acquisitions to $100 million. The restrictions on payments, among other things, limits repurchases of Greatbatch's stock to $60 million and limits our ability to make cash payments upon conversion of our convertible subordinated notes. These limitations can be waived upon the Company's request and approval of a simple majority of the lenders. Such waiver was obtained in order to fund the Precimed acquisition.

In addition, the New Credit Facility requires us to maintain a ratio of adjusted EBITDA, as defined in the agreement, to interest expense of at least 3.00 to 1.00, and a total leverage ratio, as defined in the credit agreement, of not greater than 5.00 to 1.00 from May 22, 2007 through September 29, 2009 and not greater than 4.50 to 1.00 from September 30, 2009 and thereafter. The New Credit Facility contains customary events of default. Upon the occurrence of an event of default, a majority of the lenders may declare all obligations under the New Credit Facility immediately due and payable.

There were no borrowings outstanding under the New Credit Facility as of December 28, 2007. In connection with our acquisitions that closed in early 2008, we borrowed approximately $117 million under the New Credit Facility. We anticipate that cash flow from operations will be sufficient to meet our operating, capital expenditure and debt service needs for the foreseeable future, other than for acquisitions.

Operating Activities

In total, net cash flows provided by operating activities for 2007 increased by $3.8 million from 2006. This increase was primarily the result of a $6.2 million increase in net income excluding non-cash items (i.e. depreciation, amortization, stock-based compensation, gains/loss on investments, disposal of PP&E, foreign currency contract and debt extinguishment, and IPR&D charges). The extinguishment of debt in 2007 resulted in a reclassification of approximately $11.3 million of current income tax liability which was paid in 2007. This amount was previously recorded as a non-current deferred tax liability on the balance sheet. The remainder of the variance relates to the net change in working capital accounts due to the timing of the receipt/payment of accounts receivable, accounts payable and inventory levels.

We anticipate that cash flow from operations will be sufficient to meet our operating, capital expenditure and debt service needs, other than for acquisitions.

Investing Activities

Net cash used in investing activities of $145.8 million 2007 was primarily the result of our acquisitions in 2007 ($188.1 million) which were funded with both short-term investments and cash on hand. Expenditures for property, plant and equipment increased $4.5 million over 2006. The majority of this increase relates to our new ECP manufacturing facility in Raynham, MA and the expansion of our corporate headquarters in Clarence, NY which will be completed in 2008. The remainder of the property, plant and equipment purchases relate to routine investments in order to support our internal growth and to maintain our technology leadership. In addition to the above, in 2007 we made an additional $2.0 million investment in IntElect Medical, Inc., an early stage neurostimulation device company that works in conjunction with the Cleveland Clinic.

Our current expectation for 2008 is that capital spending will be in the range of $50.0 million to $55.0 million, of which $28 million relates to the construction of our new ECP manufacturing facility and the expansion of our corporate headquarters.

We regularly engage in discussions relating to potential acquisitions and may announce an acquisition transaction at any time. We continually assess our financing facilities and capital structure to ensure liquidity and capital levels are sufficient to meet our strategic objectives. Going forward, we expect the pace of acquisitions to be less than the 2007 level. However, we will continue to pursue strategically targeted and opportunistic acquisitions.

Financing Activities

Cash flow provided by financing activities for 2007 primarily related to net proceeds of $76.0 million received in connection with the issuance of 2.25% convertible subordinated notes due 2013 during the first quarter. We paid approximately $6.6 million of financing fees related to this transaction as well as the New Credit Facility discussed above. In connection with the Enpath acquisition, we acquired $7.1 million of debt which we subsequently paid down with short-term investments and cash on hand. Cash flows from financing activities also include cash received from stock option exercises.

Capital Structure

At December 28, 2007, our capital structure consisted of $241.2 million of convertible subordinated notes and our 22.5 million shares of common stock outstanding. We are authorized to issue 100 million shares of common stock and 100 million shares of preferred stock. The market value of our outstanding common stock since our IPO has exceeded our book value; accordingly, we believe that if needed we can access public markets to sell additional common or preferred stock assuming conditions are appropriate. Our capital structure allows us to support our internal growth and provides liquidity for corporate development initiatives.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements within the meaning of Item 303(a)(4) of Regulation S-K.

Litigation

We are a party to various legal actions arising in the normal course of business. While we do not believe that the ultimate resolution of any such

pending activities will have a material adverse effect on our consolidated results of operations, financial position, or cash flows, litigation is subject to inherent uncertainties. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact in the period in which the ruling occurs.

During 2002, a former non-medical customer commenced an action alleging that we had used proprietary information of the customer to develop certain products. We have meritorious defenses and are vigorously defending the matter. The potential risk of loss is between $0.0 and $1.7 million.

In connection with our acquisition of Enpath, we assumed liability in connection with the following proceeding:

On June 12, 2006, Enpath was named as defendant in a patent infringement action filed by Pressure Products Medical Supplies, Inc. and venued in the US District Court in the Eastern District of Texas. On October 2, 2006, Enpath was officially served. Enpath has filed an answer denying liability and has filed counterclaims against the plaintiff alleging antitrust violations and patent misuse. The plaintiff has alleged that Enpath's FlowGuard(TM) valved introducer, which has been on the market for more than three years, infringes claims in the plaintiff's patents and is seeking damages and injunctive relief. Enpath believes that the plaintiff's claims are without merit and intends to pursue its defenses vigorously. Revenues from products sold that include the FlowGuard valved introducer were approximately $3.0 million, $2.0 million and $1.5 million for 2007, 2006 and 2005, respectively. The lawsuit is currently in the discovery stage. The District Court held a hearing to construe the claims of the plaintiff's patents in August 2007, but has not yet issued its decision. It is not possible to predict the timing or outcome of this litigation at this time, including whether it will affect our ability to sell our FlowGuard products, or to estimate the amount or range of potential loss.

Contractual Obligations

The following table summarizes our significant contractual obligations at December 28, 2007, and the effect such obligations are expected to have on our liquidity and cash flows in future periods.

	Payments due by period				
CONTRACTUAL OBLIGATIONS	Total	Less than 1 year	1-3 years	3-5 years	Mo
Long-Term Debt Obligations (a)	$ 280,938	$ 5,625	$ 11,250	$ 11,250	
Operating Lease Obligations (b)	11,212	2,104	3,055	2,684	
Purchase Obligations (c)	32,483	32,483	-	-	
Acquisitions (d)	140,744	130,000	10,744	-	
Total	$ 465,377	$170,212	$ 25,049	$ 13,934	

a. Includes the annual interest expense on the convertible debentures of 2.25%, or $5.6 million, which is paid semi-annually. These amounts assume the 2010 conversion feature is not exercised on the $52.2 million of 2.25% convertible subordinated notes issued in May 2003. See Note 8 - "Debt" of the Notes to the Consolidated Financial Statements in this Form 10-K for

additional information about our long-term debt obligations.

b. See Note 13 - "Commitments and Contingencies" of the Notes to the Consolidated Financial Statements in this Form 10-K for additional information about our operating lease obligations.

c. For the purposes of this table, contractual obligations for purchases of goods or services are defined as agreements that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Our purchase orders are normally based on our current manufacturing needs and are fulfilled by our vendors within short time horizons. We enter into blanket orders with vendors that have preferred pricing and terms, however these orders are normally cancelable by us without penalty.

d. In November 2007, we signed a definitive agreement to acquire Precimed which included its right to purchase the DePuy Chaumont, France manufacturing facility. These transactions closed in 2008 in exchange for approximately $130 million in cash, and a contingent payment, as defined in the Precimed purchase agreement, which can range from 0 CHF to 12,000,000 CHF depending on Precimed's 2008 earnings performance. The 1-3 years amount was based upon the exchange ratio of 1.1169 CHF per one U.S. dollar as of December 28, 2007 and is subject to change due to foreign currency fluctuations and the final calculation of the contingent payment. The purchase price was funded with cash on hand (approximately $13 million) and availability under our revolving credit agreement (approximately $117 million) and is an interest only obligation until the expiration of the revolving credit agreement in May 2012.

Inflation

We utilize certain critical raw materials (including precious metals) in our products that we obtain from a limited number of suppliers due to the technically challenging requirements of the supplied product and/or the lengthy process required to qualify these materials with our customers. We cannot quickly establish additional or replacement suppliers for these materials because of these requirements. Additionally, increasing global demand for some of the critical raw materials we need for our business has caused the prices of these materials to increase significantly. Our results may be negatively impacted from an increase in the prices of these critical raw materials. This risk is partially mitigated as many of the supply agreements that we have with our customers allow us to partially adjust prices for the impact of any raw material price increases. Historically, raw material price increases have not materially impacted our results of operations.

Impact of Recently Issued Accounting Standards

In December 2007, the FASB issued Statement SFAS No. 141(R), Business Combinations. This Statement replaces FASB Statement No. 141, Business Combinations but retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting (which SFAS No. 141 called the purchase method) be used for all business combinations. This Statement also retains the guidance in SFAS No. 141 for identifying and recognizing intangible assets separately from goodwill. However, SFAS No. 141(R) significantly changed the accounting for business combinations with regards to the number of assets and liabilities assumed that are to be measured at fair value, the accounting for contingent consideration and acquired contingencies as well as the accounting for direct acquisition costs and IPR&D. SFAS No. 141(R) is effective for acquisitions consummated beginning in fiscal year 2009 and will not materially impact our consolidated financial statements unless an acquisition is consummated after the date of adoption.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements--an amendment of ARB No. 51. This Statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. We are still evaluating the impact of SFAS No. 160 on our consolidated financial statements, which is effective beginning in fiscal year 2009.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities--Including an amendment of FASB Statement No. 115. This Statement provides entities with an option to choose to measure eligible items at fair value at specified election dates. If elected, an entity must report unrealized gains and losses on the item in earnings at each subsequent reporting date. The fair value option may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method, is irrevocable (unless a new election date occurs), and is applied only to entire instruments and not to portions of instruments. SFAS No. 159 is effective beginning in fiscal year 2008 and will not materially impact our consolidated financial statements unless we make a fair value election for a financial asset or liability after the date of adoption. Currently, we have not made such an election.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value while applying generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions based on market data obtained from independent sources and (2) the reporting entity's own assumptions developed based on unobservable inputs. In February 2008, the FASB issued FSP FAS 157-b--Effective Date of FASB Statement No. 157. This FSP (1) partially defers the effective date of SFAS No. 157 for one year for certain nonfinancial assets and nonfinancial liabilities and (2) removes certain leasing transactions from the scope of FAS 157. We believe that the provisions of SFAS No. 157 applicable to us beginning in fiscal year 2008 will not have a material effect on our consolidated financial statements. We are still evaluating what impact the provisions of SFAS No. 157 that were deferred will have on our consolidated financial statements, which are effective beginning in fiscal year 2009.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Under our revolving line of credit any borrowings bear interest at fluctuating market rates. At December 29, 2007, we did not have any borrowings outstanding under our line of credit and thus no interest rate sensitive financial instruments other than short-term investments. We do not believe that the impact of fluctuations in interest rates on our short-term investments will have a material effect on our consolidated financial statements. In the first quarter of 2008, we borrowed in excess of $100 million under our $235 million revolving credit agreement to fund the previously disclosed acquisitions. This borrowing bears interest at variable rates and thereby will subject us to interest rate risk in the future.

We incur certain expenses related to our Mexican and China operations that are denominated in a foreign currency. Given the size of these operations in relation to the overall Company, they did not have a material effect on our consolidated financial statements. In 2008, we completed two acquisitions that had operations in Europe. Correspondingly foreign currency fluctuations are anticipated to have a greater impact on our future results. We are currently in the process of evaluating our foreign currency risk as a result of these transactions in order to develop a plan to best mitigate these risks, which

could include the use of various derivative instruments.

In December 2007, we entered into a forward contract to purchase 80,000,000 CHF, at an exchange rate of 1.1389 CHF per one U.S. dollar, in order to partially fund the acquisition of Precimed, which closed in January 2008 and was payable in Swiss Francs. In January 2008, we entered into an additional forward contract to purchase 20,000,000 CHF at an exchange rate of 1.1156 per one U.S. dollar. We entered into a similar foreign exchange contract in January 2008 in order to fund the acquisition of DePuy's Chaumont France facility, which closed in February 2008 and was payable in Euros. The net result of the above transactions was a gain of $2.4 million, $0.8 million of which was recorded in 2007 (based upon the fair value of the forward contract at December 28, 2007) as Other Income and the remainder will be recorded in the first quarter of 2008.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following are set forth below:

Management's Report on Internal Control Over Financial Reporting

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 28, 2007 and December 29, 2006.

Consolidated Statements of Operations and Comprehensive Income for the years ended December 28, 2007, December 29, 2006 and December 30, 2005.

Consolidated Statements of Cash Flows for the years ended December 28, 2007, December 29, 2006 and December 30, 2005.

Consolidated Statements of Stockholders' Equity for the years ended December 28, 2007, December 29, 2006 and December 30, 2005.

Notes to Consolidated Financial Statements.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's certifying officers are responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed and maintained under the supervision of its certifying officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

As of December 28, 2007, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that the Company's internal control over

financial reporting as of December 28, 2007 is effective.

In conducting the evaluation of the effectiveness of internal control over financial reporting as of December 28, 2007, as permitted by the guidance issued by the Office of the Chief Accountant of the Securities and Exchange Commission, management excluded the following 2007 acquisitions:

- Enpath Medical, Inc. on June 15, 2007
- IntelliSensing, LLC on October 26, 2007
- Quan Emerteq, LLC on November 16, 2007
- Engineered Assemblies Corporation on November 16, 2007

See Note 2-"Acquisitions" for a discussion of these acquisitions and their impact on the Company's Consolidated Financial Statements.

The effectiveness of internal control over financial reporting as of December 28, 2007 has been audited by Deloitte & Touche LLP, the Company's independent registered public accounting firm.

Dated: February 26, 2008

/s/ Thomas J. Hook	/s/ Thomas J. Mazza
Thomas J. Hook	Thomas J. Mazza
President & Chief Executive Officer	Senior Vice President & Chief Financial Offi

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Greatbatch, Inc.
Clarence, New York

We have audited the internal control over financial reporting of Greatbatch, Inc. and subsidiaries (the "Company") as of December 28, 2007, based on criteria established in Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Enpath Medical, Inc., IntelliSensing, LLC, Quan Emerteq, LLC, and Engineered Assemblies Corporation, which were acquired on June 15, 2007, October 26, 2007, November 16, 2007, and November 16, 2007, respectively, and whose financial statements constitute 50% and 30% of net and total assets, respectively, and 10% of revenues of the consolidated financial statement amounts as of and for the year ended December 28, 2007. Accordingly, our audit did not include the internal control over financial reporting at Enpath Medical, Inc., IntelliSensing, LLC, Quan Emerteq, LLC, and Engineered Assemblies Corporation.

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 28, 2007, based on the criteria established in Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 28, 2007 of the Company and our report dated February 26, 2008 expressed an unqualified opinion on those financial statements and financial statement schedule and included an explanatory paragraph relating to the Company's adoption of Statement of Financial Accounting Standard No. 123 (revised 2004), Share-Based Payment.

/s/ Deloitte & Touche LLP

Buffalo, New York
February 26 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Greatbatch, Inc.
Clarence, New York

We have audited the accompanying consolidated balance sheets of Greatbatch, Inc. and subsidiaries (the "Company") as of December 28, 2007 and December 29, 2006, and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 28, 2007. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 28, 2007 and December 29, 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 28, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, on January 1, 2006, the Company changed its method of accounting for stock-based compensation to conform to Statement of Financial Accounting Standard No. 123 (revised 2004), Share-Based Payment.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 28, 2007, based on the criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2008 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Buffalo, New York
February 26, 2008

GREATBATCH, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands except share and per share data)

ASSETS	December 28, 2007	December 2 2006
Current assets:		
Cash and cash equivalents	$ 33,473	$ 71,
Short-term investments available for sale	7,017	71,
Accounts receivable, net of allowance of $758 in 2007 and $532 in 2006	56,962	31,
Inventories, net	71,882	57,
Refundable income taxes	377	1,
Deferred income taxes	6,469	5,
Prepaid expenses and other current assets	5,044	2,
Total current assets	181,224	241,
Property, plant and equipment, net	114,946	91,
Amortizing intangible assets, net	71,268	28,
Trademarks and tradenames	32,582	28,
Goodwill	248,540	155,
Other assets	15,291	3,
Total assets	$ 663,851	$ 547,
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 33,433	$ 12,
Accrued expenses and other current liabilities	30,975	29,
Total current liabilities	64,408	42,
Convertible subordinated notes	241,198	170,
Deferred income taxes	35,346	35,
Other long-term liabilities	228	
Total liabilities	341,180	248,
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, $0.001 par value, authorized 100,000,000 shares; no shares issued or outstanding in 2007 or 2006	-	
Common stock, $0.001 par value, authorized 100,000,000 shares; 22,477,340 shares issued and 22,470,299 shares outstanding in 2007 and 22,119,142 shares issued and 22,111,516 shares outstanding in 2006	22	
Additional paid-in capital	238,574	227,
Treasury stock, at cost, 7,041 shares in 2007 and 7,626 shares in 2006	(140)	(
Retained earnings	84,215	69,
Accumulated other comprehensive income	-	3,

Total stockholders' equity	322,671	299,
Total liabilities and stockholders' equity	$ 663,851	$ 547,

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

GREATBATCH, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME
(in thousands except per share amounts)

	Year Ended		
	December 28, 2007	December 29, 2006	Dece
Sales	$ 318,746	$ 271,142	$
Costs and expenses:			
Cost of sales - excluding amortization of intangible assets	198,184	164,885	
Cost of sales - amortization of intangible assets	4,537	3,813	
Selling, general and administrative expenses	44,674	38,785	
Research, development and engineering costs, net	29,914	24,225	
Acquired in-process research and development	16,093	-	
Other operating expenses, net	5,324	17,058	
Operating income	20,020	22,376	
Interest expense	7,303	4,605	
Interest income	(7,050)	(5,775)	
Gain on extinguishment of debt	(4,473)	-	
Gain on sale of investment security	(4,001)	-	
Other (income) expense, net	(447)	12	
Income before provision for income taxes	28,688	23,534	
Provision for income taxes	13,638	7,408	
Net income	$ 15,050	$ 16,126	$
Earnings per share:			
Basic	$ 0.68	$ 0.74	$
Diluted	$ 0.67	$ 0.73	$
Weighted average shares outstanding:			
Basic	22,152	21,803	
Diluted	22,422	26,334	
Comprehensive income:			
Net income	$ 15,050	$ 16,126	$
Net unrealized gain (loss) on short-term investments available for sale, net of tax	(923)	3,594	

Less: reclassification adjustment for net realized gain on short-term investments available for sale, net of tax	(2,601)	-	
Comprehensive income	$ 11,526	$ 19,720	$

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

GREATBATCH, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended	
	December 28, 2007	December 29, 2006
Cash flows from operating activities:		
Net income	$ 15,050	$ 16,12
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,842	19,30
Stock-based compensation	9,252	9,71
Gain on extinguishment of debt	(4,473)	
Gain on sale of investment secruity	(4,001)	
Gain on foreign currency contract	(778)	
Acquired in-process research and development	16,093	
(Gain) loss on disposal of assets	(194)	5,37
Deferred income taxes	(4,935)	4,88
Changes in operating assets and liabilities:		
Accounts receivable	(14,523)	(1,28
Inventories	(1,969)	(12,48
Prepaid expenses and other current assets	(238)	(85
Accounts payable	11,138	6
Accrued expenses and other current liabilities	(4,581)	(1,01
Income taxes	1,282	(64
Net cash provided by operating activities	42,965	39,20
Cash flows from investing activities:		
Short-term investments:		
Purchases	(70,058)	(54,80
Proceeds from dispositions	133,578	53,80
Acquisition of property, plant and equipment	(19,993)	(15,44
Proceeds from sale of property, plant and equipment and other assets	16	3
Purchase of cost method investment, net of distributions	(1,750)	
Acquisitions, net of cash acquired	(188,148)	
Other investing activities	551	2
Net cash used in investing activities	(145,804)	(16,37

Cash flows from financing activities:		
Repayments under line of credit, net	(1,000)	
Principal payments of long-term debt	(6,093)	
Proceeds from issuance of long-term debt	76,000	
Payment of debt issuance costs	(6,628)	
Principal payments of capital lease obligations	–	(46
Issuance of common stock	2,699	2,08
Excess tax benefits from stock-based awards	392	29
Repurchase of treasury stock	(205)	
Net cash provided by (used in) financing activities	65,165	1,91
Net increase (decrease) in cash and cash equivalents	(37,674)	24,74
Cash and cash equivalents, beginning of year	71,147	46,40
Cash and cash equivalents, end of year	$ 33,473	$ 71,14

The accompanying notes are an integral part of these consolidated financial stat

GREATBATCH, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock		Additional Paid-In	Deferred Stock-Based	Treasury Stock		R
	Shares	Amount	Capital	Compensation	Shares	Amount	E
Balance, January 1, 2005	21,451	$ 21	$212,131	$ (833)	5	$ (95)	$
Stock-based compensation	–	–	3	333	(1)	27	
Exercise of stock options	98	1	1,067	–	–	–	
Grant of restricted stock	68	–	1,260	(1,260)	–	–	
Forfeitures of restricted stock	(14)	–	(270)	270	–	–	
Income tax benefit from stock options	–	–	252	–	–	–	
Shares contributed to 401(k)	149	–	2,661	–	(4)	68	
Net income	–	–	–	–	–	–	
Total other comprehensive loss, net	–	–	–	–	–	–	
Balance, December 30, 2005	21,752	22	217,104	(1,490)	–	–	
Adoption of SFAS No. 123(R)	–	–	(1,490)	1,490	–	–	
Stock-based compensation	11	–	6,417	–	–	–	
Exercise of stock options	161	–	2,082	–	–	–	
Grant of restricted stock	94	–	–	–	–	–	
Forfeitures of restricted stock	(9)	–	–	–	–	–	
Repurchase of shares to settle employee tax withholding on vested restricted stock	–	–	–	–	(8)	(205)	

Income tax benefit from stock options and restricted stock	-	-	294	-	-	-
Shares contributed to 401(k)	110	-	2,780	-	-	-
Net income	-	-	-	-	-	-
Total other comprehensive gain, net	-	-	-	-	-	-
Balance, December 29, 2006	22,119	22	227,187	-	(8)	(205)
Stock-based compensation	9	-	5,673	-	-	-
Exercise of stock options	141	-	2,699	-	-	-
Grant of restricted stock	106	-	(205)	-	8	205
Forfeitures of restricted stock	(8)	-	-	-	-	-
Repurchase of shares to settle employee tax withholding on vested restricted stock	-	-	-	-	(7)	(140)
Income tax benefit from stock options and restricted stock	-	-	264	-	-	-
Shares contributed to 401(k)	110	-	2,956	-	-	-
Net income	-	-	-	-	-	-
Total other comprehensive loss, net	-	-	-	-	-	-
Balance, December 28, 2007	22,477	$ 22	$238,574	$ -	(7)	$(140) $

The accompanying notes are an integral part of these consolidated financia

GREATBATCH, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include the accounts of Greatbatch, Inc. and its wholly owned subsidiaries (collectively, the "Company" or "Greatbatch". All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations - The Company operates its business in two reportable segments - Implantable Medical Components ("IMC") and Electrochem Commercial Power ("ECP"). The IMC segment designs and manufactures batteries, capacitors, filtered feedthroughs, engineered components and enclosures used in Implantable Medical Devices ("IMDs"). Additionally, the IMC business offers value-added assembly and design engineering services for products that incorporate IMD components. With the acquisitions of Enpath Medical, Inc. and Quan Emerteq, LLC in 2007, the IMC business now designs, develops and manufactures introducers, catheters, implantable stimulation leads and microcomponents for the vascular, cardiac rhythm management and neurostimulation markets.

The ECP segment designs and manufactures high performance batteries and battery packs for use in oil and gas exploration, pipeline inspection, telematics, oceanography equipment, seismic, communication, military and aerospace applications. With the acquisitions of Engineered Assemblies

Corporation and IntelliSensing, LLC, the ECP business can now design and provide its customers rechargeable battery and wireless sensor systems.

Fiscal Year End - The Company utilizes a fifty-two, fifty-three week fiscal year ending on the Friday nearest December 31st. Fiscal years 2007, 2006 and 2005 ended on December 28, December 29 and December 30, respectively.

Cash and Cash Equivalents - Cash and cash equivalents consist of cash and highly liquid, short-term investments with maturities at the time of purchase of three months or less.

Short-term Investments - Short-term investments in 2007 are comprised of municipal, U.S. Government Agency and corporate notes and bonds acquired with maturities that exceed three months. Short-term investments in 2006 also included auction rate securities and equity securities. All short-term investments as of December 28, 2007 and December 29, 2006 are classified as available-for-sale and have a maturity of less than one year at the time of acquisition. Available-for-sale securities are carried at fair value with the unrealized gain or loss, net of tax, reported in accumulated other comprehensive income (loss) as a separate component of stockholders' equity. Fair value is based on quoted market prices as of the end of the reporting period. Realized gains and losses and investment income are included in net income. Due to the short-term nature of the interest rate resets, the fair market value of the auction rate securities in 2006 approximates their recorded value. The cost of securities sold is based on the specific identification method. Unrealized losses considered to be other than temporary during the period are recognized in net income.

Fair Value of Financial Instruments - The carrying amount of financial instruments, including cash and cash equivalents, trade receivables and accounts payable, approximated their fair value as of December 28, 2007 and December 29, 2006 because of the relatively short maturity of these instruments.

Inventories - Inventories are stated at the lower of cost, determined using the first-in first-out method, or market.

Property, Plant and Equipment - Property, plant and equipment is carried at cost. Depreciation is computed primarily by the straight-line method over the estimated useful lives of the assets, as follows: buildings and building improvements 7-40 years; machinery and equipment 3-8 years; office equipment 3-10 years; and leasehold improvements over the remaining lives of the improvements or the lease term, if less.

The cost of repairs and maintenance is expensed as incurred; renewals and betterments are capitalized. Upon retirement or sale of an asset, its cost and related accumulated depreciation or amortization is removed from the accounts and any gain or loss is recorded in operating income or expense.

Business Combinations - The Company records its business combinations under the purchase method of accounting. Under the purchase method of accounting, the Company allocates the purchase price of each acquisition to the tangible and identifiable intangible assets acquired and liabilities assumed based on their respective fair values at the date of acquisition. The fair value of identifiable intangible assets is based upon detailed valuations that use various assumptions made by management. Any excess of the purchase price over the fair value of the net tangible and intangible assets acquired is allocated to goodwill.

Amortizing Intangible Assets - Acquired intangible assets other than goodwill and trademark and tradenames consist primarily of purchased technology, patents and customer lists. The Company amortizes its definite-lived intangible assets on a straight-line basis over their estimated useful lives as follows: purchased technology and patents 5-15 years; customer lists 11-15 years and other intangible assets, 1-10 years.

Purchased In-Process Research and Development ("IPR&D") - When the Company acquires another entity, the purchase price is allocated, as applicable, between IPR&D, other identifiable intangible assets, net tangible assets, and goodwill. The Company defines IPR&D as the value assigned to those projects for which the related products have not received regulatory approval and have no alternative future use. Determining the portion of the purchase price allocated to IPR&D requires the Company to make significant estimates. The amount of the purchase price allocated to IPR&D is determined by estimating the future cash flows of each project or technology and discounting the net cash flows back to their present values. The discount rate used is determined at the time of acquisition in accordance with accepted valuation methods. These methodologies include consideration of the risk of the project not achieving commercial feasibility.

Impairment of Long-lived Assets - The Company assesses the impairment of definite lived long-lived assets when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Factors that are considered in deciding when to perform an impairment review include significant under-performance of a business or product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in the use of the assets. Recoverability potential is measured by comparing the carrying amount of the asset group to the related total future undiscounted cash flows. If an asset group's carrying value is not recoverable through related cash flows, the asset group is considered to be impaired. Impairment is measured by comparing the asset group's carrying amount to its fair value, based on the best information available, including market prices or discounted cash flow analyses. When it is determined that useful lives of assets are shorter than originally estimated, and there are sufficient cash flows to support the carrying value of the assets, the rate of depreciation is accelerated in order to fully depreciate the assets over their new shorter useful lives.

Goodwill and trademarks and tradenames are not amortized but are periodically tested for impairment. The Company assesses goodwill for impairment by comparing the fair value of its reporting units to their carrying amounts on the last day of each fiscal year, or more frequently if certain events occur or circumstances change, to determine if there is potential impairment. If the fair value of a reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the implied fair value of the goodwill within the reporting unit is less than its carrying value. Fair values for reporting units are determined based on discounted cash flows, market multiples or appraised values as appropriate. Indefinite lived intangible assets such as trademarks and tradenames are assessed for impairment on the last day of each fiscal year, or more frequently if certain events occur or circumstances change, by comparing the fair value of the asset to their carrying value. The fair value is determined by using a relief-from-royalty approach. The Company has determined that, based on the impairment tests performed, no impairment of goodwill or trademarks and tradenames has occurred during 2007 or 2006.

Other Assets - Other assets includes deferred costs incurred in connection with the Company's issuance of its convertible subordinated notes and revolving line of credit. These costs are being amortized using the effective yield method over the period from the date of issuance to the put option date (if applicable) or the contractual maturity date, whichever is earlier. Total net deferred financing fees amounted to $6.4 million at December 28, 2007 and $2.3 million at December 29, 2006.

Other assets also include long-term investments in equity securities that do not have readily available market values and are accounted for using the cost method. The Company assesses impairment of these securities whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. If impairment is considered other than temporary, an impairment loss is recognized and the fair value of the investment becomes its new cost basis. The aggregate recorded amount of cost method investments at December 28, 2007 and December 29, 2006 was $6.8 million and $0.8 million, respectively. The Company has determined that these investments are not considered variable interest entities as defined in Financial Accounting Standards Board ("FASB") Interpretation ("FIN") 46(R), Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. The Company's exposure related to these entities is limited to its recorded investment. These investments are in research and development companies where the fair value may be subject to future fluctuations, which could be significant.

Concentration of Credit Risk - Financial instruments that potentially subject the Company to concentration of credit risk consist principally of trade receivables. A significant portion of the Company's sales are to three customers, all in the medical device industry, and, as such, the Company is directly affected by the condition of those customers and that industry. However, the credit risk associated with trade receivables is minimal due to the Company's stable customer base. Note 14 - "Business Segment Information" contains information on sales and accounts receivable for the Company's significant customers. The Company maintains cash deposits with major banks, which from time to time may exceed federally insured limits.

Allowance for Doubtful Accounts - The Company provides credit, in the normal course of business, to its customers. The Company also maintains an allowance for doubtful customer accounts and charges actual losses against this allowance when incurred.

Income Taxes - The consolidated financial statements of the Company have been prepared using the asset and liability approach in accounting for income taxes which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of net operating losses, credits, and temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided on deferred tax assets if it is determined that it is more likely than not that the asset will not be realized.

The Company and its domestic subsidiaries file a consolidated federal income tax return. State tax returns are filed on a combined or separate basis depending on the applicable laws relating to the Company and its domestic subsidiaries.

Revenue Recognition - Revenue from the sale of products is recognized at the time the product is shipped and title passes to our customers. The Company includes shipping and handling fees billed to customers in sales.

Shipping and handling costs associated with inbound freight are generally recorded in cost of sales. In certain instances the Company obtains component parts for sub-assemblies from its customers that are included in the final product. The cost of these customer supplied component parts amounted to $35.1 million, $18.8 million and $7.8 million in 2007, 2006 and 2005, respectively. These amounts were excluded from sales and cost of sales recognized by the Company.

Product Warranties - The Company allows customers to return defective or damaged products for credit, replacement, or exchange. The Company generally warrants that its products will meet customer specifications and will be free from defects in materials and workmanship. The Company accrues its estimated exposure to warranty claims based upon recent historical experience and other specific information as it becomes available.

Research and Development and Engineering Costs - Research and development costs are expensed as incurred. The primary costs are salary and benefits for personnel. Engineering costs are expensed as incurred. Cost reimbursements for engineering services from customers for whom the Company designs products are recorded as an offset to engineering costs upon achieving development milestones specified in the contracts.

Net research, development and engineering costs are comprised of the following (in thousands):

	Year Ended		
	December 28, 2007	December 29, 2006	December 30, 2005
Research and development costs	$ 16,141	$ 16,096	$ 17,069
Engineering costs	18,929	9,888	5,500
Less: cost reimbursements	(5,156)	(1,759)	(3,844)
Engineering costs, net	13,773	8,129	1,656
Total research, development and engineering costs, net	$ 29,914	$ 24,225	$ 18,725

Stock-Based Compensation - Beginning in fiscal year 2006, the Company adopted FASB Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123(R)"), and related Securities and Exchange Commission ("SEC") rules included in Staff Accounting Bulletin ("SAB") No. 107. Under SFAS No. 123(R) the Company is now required to record compensation costs related to all stock-based awards.

Prior to fiscal year 2006, the Company accounted for stock options following the requirements of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, which did not require the Company to record compensation expense for fixed

stock options if the exercise price of the option equaled or exceeded the fair market value of the Company's stock at the grant date. For restricted stock awards, the fair market value of the award, determined based upon the closing value of the Company's stock price on the grant date, was recorded to compensation expense on a straight-line basis over the vesting period.

The Company applied the modified prospective approach in adopting SFAS No. 123(R), which allows the requirements of SFAS No. 123(R) to be applied to new awards (stock options, restricted stock and restricted stock unit awards) and to awards modified, repurchased, or cancelled beginning in 2006. Additionally, any unvested awards granted prior to 2006 are expensed as service is performed based on the grant-date fair value calculated in accordance with SFAS No. 123. Compensation cost for service-based stock options and restricted stock awards is recognized ratably over the applicable vesting period. Compensation cost for performance-based stock options and restricted stock units is reassessed each period and recognized based upon the probability that the performance targets will be achieved. The Company utilizes the Black-Scholes option pricing model to estimate the fair value of stock options granted. For restricted stock and restricted stock unit awards, the fair market value of the award, determined based upon the closing value of the Company's stock price on the grant date, is recorded to compensation expense on a straight-line basis over the vesting period.

The Company's net income and earnings per share for fiscal year 2005 as if the fair value based method of SFAS No. 123 had been applied to all outstanding and unvested awards is as follows (in thousands except per share data):

	Year Ended December 30, 2005
Net income as reported	$ 10,107
Add: stock-based compensation cost included in net income as reported, net of related tax effects	2,176
Less: stock-based compensation cost determined using the fair value based method, net of related tax effects	4,409
Pro forma net income	$ 7,874
Net earnings per share:	
Basic - as reported	$ 0.47
Basic - pro forma	$ 0.36
Diluted - as reported	$ 0.46
Diluted - pro forma	$ 0.36

Net earnings per diluted share for 2005 exclude the effect of 4,219,000 shares related to our outstanding contingent convertible notes, as the effect is anti-dilutive. Included in stock-based compensation is the cost of company stock contributed to the 401(k) plan.

In November 2005, the FASB issued FASB Staff Position ("FSP") FAS 123(R)-3,

Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards. FSP FAS 123(R)-3 provides an alternative transition method for establishing the beginning balance of the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123(R) (the "APIC Pool"). Effective in the fourth quarter of 2006, the Company elected to adopt the alternative transition method provided in FSP FAS 123(R)-3 for establishing the beginning balance of the APIC Pool. The impact of this election on the prior quarters of 2006 was immaterial. This method consists of a computational component that establishes a beginning balance of the APIC Pool related to employee compensation and a simplified method ("short-cut method") to determine the subsequent impact on the APIC Pool of employee awards that are fully vested and outstanding upon the adoption of SFAS No. 123(R).

Earnings Per Share - Basic earnings per share is calculated by dividing net income by the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated by adjusting for potential common shares, which consist of stock options, unvested restricted stock and restricted stock units and contingently convertible instruments. Holders of the Company's convertible notes may convert them into shares of the Company's common stock under certain circumstances (see Note 8 - "Debt").

The Company includes the effect of the conversion of its convertible subordinated notes in the calculation of diluted earnings per share using the if-converted method or the net share settlement method for instruments that may be settled in cash at the Company's election and which the Company has the ability and intent to settle them in cash, as long as the effect is dilutive. For computation of earnings per share under conversion conditions, the number of diluted shares outstanding increases by the amount of shares that are potentially convertible during that period. Also, net income is adjusted for the calculation to add back interest expense on the convertible notes as well as unamortized discount and deferred financing fees amortization recorded during the period.

The following table reflects the calculation of basic and diluted earnings per share (in thousands, except per share amounts):

	Year Ended		
	December 28, 2007	December 29, 2006	December 30, 2005
Numerator for basic earnings per share:			
Income from continuing operations	$ 15,050	$ 16,126	$ 10,107
Effect of dilutive securities:			
Interest expense on convertible notes and related deferred financing fees, net of tax	-	3,064	-
Numerator for diluted earnings per share	$ 15,050	$ 19,190	$ 10,107
Denominator for basic earnings per share:			
Weighted average shares outstanding	22,152	21,803	21,582

Effect of dilutive securities:			
Convertible notes	-	4,219	-
Stock options and unvested restricted stock	270	312	228
Dilutive potential common shares	270	4,531	228
Denominator for diluted earnings per share	22,422	26,334	21,810
Basic earnings per share	$ 0.68	$ 0.74	$ 0.47
Diluted earnings per share	$ 0.67	$ 0.73	$ 0.46

Earnings per diluted share for 2007 excludes the effect of 6,302,000 shares related to the Company's outstanding contingent convertible notes, of which 5,700,000 shares relate to notes that may be settled in cash at the option of the Company, as the effect is anti-dilutive. Earnings per diluted share for 2005 excludes the effect of 4,219,000 shares related to outstanding contingent convertible notes, as the effect is anti-dilutive. The diluted weighted average share calculations do not include options and restricted stock for 2007, 2006 and 2005 of 664,000, 1,084,000 and 908,000, respectively, as they are not dilutive to the earnings per share calculations. The diluted weighted average share calculations for the 2007 and 2006 periods also do not include 287,000 shares and 215,000 shares, respectively, of performance based stock options and restricted stock units as the performance criteria for those awards had not been met as of the end of the respective periods.

As of December 28, 2007, there were 60,000 shares of Greatbatch stock which were issuable in connection with the acquisition of Quan Emerteq, LLC. Pursuant to the purchase agreement, these shares were issuable within 60 days of the acquisition date (November 16, 2007). These shares were issued in January 2008. See Note 2 - "Acquisitions."

Comprehensive Income - The Company's accumulated other comprehensive income includes the unrealized gains on short-term investments available-for-sale, net of applicable taxes. The effect of this item was $0 and an increase in stockholders' equity on a cumulative basis by $3.5 million at December 28, 2007 and December 29, 2006, respectively. The Company's gain on available for sale securities is included in accumulated other comprehensive income net of deferred taxes of $1.1 million at December 29, 2006.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of sales and expenses during the reporting period. Actual results could differ materially from those estimates.

Supplemental Cash Flow Information (in thousands):

	Year Ended		
	December 28, 2007	December 29, 2006	Decem
Cash paid during the year for:			
Interest	$ 5,325	$ 3,888	$
Income taxes	17,341	2,867	
Noncash investing and financing activities:			
Net unrealized gain (loss) on available-for-sale securities	$ (923)	$ 3,594	$
Common stock contributed to 401(k) Plan	2,956	2,780	
Property, plant and equipment purchases included in accounts payable	3,307	808	
Unsettled purchase of treasury stock	140	205	
Exchange of convertible subordinated notes	117,782	-	
Shares to be issued in connection with business acquisition	1,473	-	
Acquisition of non-cash assets and liabilities:			
Assets acquired	$ 209,946	$ -	$
Liabilities assumed	20,395	-	

Recent Accounting Pronouncements -- In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. This Statement replaces FASB Statement No. 141, Business Combinations but retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting (which SFAS No. 141 called the purchase method) be used for all business combinations. This Statement also retains the guidance in SFAS No. 141 for identifying and recognizing intangible assets separately from goodwill. However, SFAS No. 141(R) significantly changed the accounting for business combinations with regards to the number of assets and liabilities assumed that are to be measured at fair value, the accounting for contingent consideration and acquired contingencies as well as the accounting for direct acquisition costs and IPR&D. SFAS No. 141(R) is effective for acquisitions consummated beginning in fiscal year 2009 and will not materially impact the Company's consolidated financial statements unless an acquisition is consummated after the date of adoption.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements--an amendment of ARB No. 51. This Statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The Company is still evaluating the impact of SFAS No. 160 on its consolidated financial statements, which is effective beginning in fiscal year 2009.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities--Including an amendment of FASB Statement No. 115. This Statement provides entities with an option to choose to measure eligible items at fair value at specified election dates. If elected, an entity must report unrealized gains and losses on the item in earnings at each subsequent reporting date. The fair value option may be applied instrument by instrument, with a few exceptions, such as

investments otherwise accounted for by the equity method, is irrevocable (unless a new election date occurs), and is applied only to entire instruments and not to portions of instruments. SFAS No. 159 is effective beginning in fiscal year 2008 and will not materially impact our consolidated financial statements unless we make a fair value election for a financial asset or liability after the date of adoption. Currently, we have not made such an election.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value while applying generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions based on market data obtained from independent sources and (2) the reporting entity's own assumptions developed based on unobservable inputs. In February 2008, the FASB issued FSP FAS 157-b--Effective Date of FASB Statement No. 157. This FSP (1) partially defers the effective date of SFAS No. 157 for one year for certain nonfinancial assets and nonfinancial liabilities and (2) removes certain leasing transactions from the scope of FAS 157. The Company believes that the provisions of SFAS No. 157 applicable to the Company beginning in fiscal year 2008 will not have a material effect on its consolidated financial statements. We are still evaluating what impact the provisions of SFAS No. 157 that were deferred will have on our consolidated financial statements, which are effective beginning in fiscal year 2009.

2. ACQUISITIONS

BIOMEC, Inc.

On April 3, 2007, the Company acquired substantially all of the assets of BIOMEC, Inc. ("BIOMEC"). BIOMEC is a biomedical device company based in Cleveland, OH. With the BIOMEC acquisition, the Company retained an engineering team with diverse capabilities in medical device development, including mechanical design, software engineering, biocompatible coatings, and electronics. As a result, the Company can now offer device design engineering expertise to its customers.

This transaction was accounted for under the purchase method of accounting. Accordingly, the results of BIOMEC's operations were included in the consolidated financial statements from the date of acquisition. The aggregate purchase price was $11.4 million, which was paid in cash. In connection with this transaction, which was structured as an asset purchase, the Company received a payment of $0.25 million from the former BIOMEC representing the Company's share of the purchase price resulting from the Company's 2% ownership interest in the former BIOMEC. This payment was recorded as a reduction to the carrying amount of this investment.

The excess of the purchase price over the fair value of the net tangible and intangible assets acquired of $5.2 million was allocated to goodwill. Various factors contributed to the establishment of goodwill, including: the value of BIOMEC's highly trained assembled work force; the expected revenue growth over time and the incremental value to the Company's IMC business from having device engineering capabilities; and the strategic partnership established with IntElect Medical, Inc. ("IntElect") an early stage neurostimulation device company that works in conjunction with the Cleveland Clinic. Goodwill resulting from the BIOMEC acquisition was allocated to the Company's IMC segment and is deductible for tax purposes.

Approximately $2.3 million of the purchase price represents the estimated fair value of acquired IPR&D projects that had not yet reached technological feasibility and had no alternative future use as of the acquisition date. Accordingly, the amount was immediately expensed after the acquisition date. The value assigned to IPR&D relates to projects that incorporate BIOMEC's novel-polymer coating (biomimetic) technology that mimics the surface of endothelial cells of blood vessels. The estimated fair value of these projects was determined using a discounted cash flow model. This model utilized discount rates of approximately 40%, which represented the stage of completion and the risks surrounding the successful development and commercialization of each of the IPR&D projects, which is consistent with the early development stage of these projects. The Company expects various products that utilize the biomimetic coatings technology to be commercially launched by original equipment manufacturers ("OEM") in 2009 once Food and Drug Administration ("FDA") approval is received. With BIOMEC, the Company acquired grants that will fund the remaining development costs for these products. The Company believes that the estimated IPR&D amounts represent their fair value at the date of acquisition and do not exceed the amount an independent third party would pay for the projects.

Approximately $3.7 million of the purchase price was allocated to BIOMEC's investment in IntElect. Subsequent to the acquisition, the Company made an additional $2.0 million investment in IntElect, which increased its ownership percentage to approximately 19%. The IntElect investment is being accounted for under the cost method of accounting and is included in other assets.

Enpath Medical, Inc.

On June 15, 2007, the Company completed its acquisition of Enpath Medical, Inc. ("Enpath"). Enpath designs, develops, manufactures and markets single use medical device products for the cardiac rhythm management, neuromodulation and interventional radiology markets. The acquisition further expanded the Company's product and service offerings to the cardiac rhythm management ("CRM") and neurostimulation marketplaces, broadened its market reach into the vascular segment, and added several new OEM customers.

This transaction was accounted for under the purchase method of accounting. Accordingly, the results of Enpath's operations were included in the consolidated financial statements from the date of acquisition. The aggregate purchase price was $98.4 million, consisting of the cash issued at closing to Enpath shareholders ($91.6 million), the consideration paid to employees in exchange for the cancellation of their Enpath stock options and restricted stock ($3.8 million) and other direct acquisition-related costs, including financial advisory, legal and accounting services ($3.0 million). Subsequent to the acquisition date, the Company repaid the line of credit and term loans assumed from Enpath of approximately $7.1 million.

The cost of the acquisition was allocated to the assets acquired and liabilities assumed from Enpath based on their fair values as of the close of the acquisition, with the amount exceeding the fair value recorded as goodwill. The following table summarizes the allocation of the cost of the acquisition to the assets acquired and liabilities assumed as of the close of the acquisition (in thousands):

(in thousands)	As of June 15, 2007
Assets acquired	
Current assets	$ 10,942
Property, plant and equipment	11,623
Acquired IPR&D	13,840
Amortizing intangible assets	24,144
Tradenames	4,330
Goodwill	48,941
Total assets acquired	113,820
Liabilities assumed	
Current liabilities	5,950
Notes payable	4,379
Deferred income taxes	4,915
Other non-current liabilities	145
Total liabilities assumed	15,389
Purchase price	$ 98,431

The fair values of the assets acquired and liabilities assumed were determined using one of three valuation approaches: market, income and cost. The selection of a particular method for a given asset depended on the reliability of available data and the nature of the asset, among other considerations. The market approach, which indicates value for a subject asset based on available market pricing for comparable assets, was utilized for in-process and finished inventory. The income approach, which indicates value for a subject asset based on the present value of risk adjusted cash flows projected to be generated by the asset, was used for certain intangible assets such as technology and patents, acquired IPR&D, customer relationships, trademarks and tradenames and for the noncompete agreements with employees. The risk adjusted projected cash flows were discounted at a required rate of return that reflects the relative risk of the Enpath transaction and the time value of money. The risk adjusted projected cash flows for each asset considered multiple factors, including current revenue from existing customers, attrition trends, reasonable contract renewal assumptions from the perspective of a marketplace participant, and expected profit margins giving consideration to historical and expected margins. The cost approach, which estimates value by determining the current cost of replacing an asset with another of equivalent economic utility, was used for the majority of personal property and raw materials inventory. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the property, less an allowance for loss in value due to depreciation or obsolescence, with specific consideration given to economic obsolescence if indicated.

Inventory - The fair value of the in-process and finished inventory acquired was estimated by applying a version of the market approach called the comparable sales method. This approach estimates the fair value of the asset by calculating the potential sales generated from selling the inventory and subtracting from it the costs related to the sale of that inventory and a reasonable profit allowance. Based upon this methodology, the Company recorded the inventory acquired at fair value resulting in an increase in inventory of $1.3 million which was fully expensed in 2007 as

the inventory acquired from Enpath was sold and was included in cost of sales. Raw materials inventory was valued at replacement cost.

Intangible assets - The purchase price was allocated to specific intangible assets as follows (dollars in thousands):

	Amount assigned	Weighted average amortization period (years)	Proba assig rev
Amortizable intangible assets			
Technology and patents	$ 9,701	10	1
Customer relationships	14,133	11	1
Noncompete agreements	310	1	5
	$24,144	10	
Trademarks and Tradenames	$ 4,330	indefinite	1
Acquired IPR&D - Introducers	$12,640	-	60%
Acquired IPR&D - Catheters	$ 1,200	-	70%

Technology and patents - Technology and patents consists of technical processes, patented and unpatented technology, manufacturing know-how and the understanding with respect to products or processes that have been developed by Enpath and that will be leveraged in current and future products. Approximately 85 percent of the value assigned to technology and patents is associated with Enpath's introducer products. The Company determined that the weighted average estimated useful life of the technology and patents is 10 years. This life is based upon management's estimate of the product life cycle associated with technology and patents before they will be replaced by new technologies. The expected cash flows associated with technology and patents were nominal after 10 years.

Customer relationships - Customer relationships represent the estimated fair value of both the contractual and non-contractual customer relationships Enpath has with OEMs as of the acquisition date. The primary customers of Enpath include C.R. Bard, Boston Scientific, Medtronic and St. Jude Medical, some of which are also customers of Greatbatch. These relationships were valued separately from goodwill at the amount which an independent third party would be willing to pay for these OEM relationships. The Company determined that the estimated useful life of the intangible assets associated with the existing customer relationships is 11 years. This life was based upon historical customer attrition and management's understanding of the industry.

Trademarks and tradenames - Trademarks and tradenames represent the estimated fair value of registered and unregistered corporate and product names acquired from Enpath, which will be utilized by the Company in the future. These included the "Enpath" corporate tradename as well as twelve other registered product names. These tradenames were valued separately from goodwill at the amount which an independent third party would be willing to pay for use of these names. The tradenames are inherently valuable as the Company believes they convey favorable perceptions about the products with which they are affiliated. This in turn generates

consistent and increased demand for the products, which provides the Company with greater revenues, as well as greater production and operating efficiencies. Thus, the Company will realize larger profit margins than companies without the tradenames. The Company currently intends to utilize these trademarks and tradenames for an indefinite period of time, thus these intangible assets are not being amortized but are tested for impairment on an annual basis.

Acquired IPR&D - Approximately $13.8 million of the purchase price represents the estimated fair value of acquired IPR&D projects that had not yet reached technological feasibility and had no alternative future use. Accordingly, the amount was immediately expensed on the acquisition date and is not deductible for tax purposes. The value assigned to IPR&D related to introducer projects ($12.6 million) and catheter projects ($1.2 million). These projects primarily represent the next generation of products already being sold by Enpath which incorporate new enhancements and customer modifications. The Company expects to commercially launch various introducer products in 2008 and 2009 and various catheter products in 2009 which will replace existing products. For purposes of valuing the acquired research and development, the Company estimated total costs to complete the introducer projects to be approximately $0.3 million and approximately $0.5 million to complete the catheter projects. If the Company is not successful in completing these projects on a timely basis, future sales from introducers and catheters may be adversely affected resulting in erosion of the Company's market share.

The fair value of these projects was determined based on the excess earnings method. This model utilized discount rates that took into consideration the internal rate of return expected from the Enpath transaction and applied that rate to risk adjusted revenues. The risk adjustment assigned to the revenues was based upon the stage of completion and the risks surrounding the successful development and commercialization of each of the IPR&D projects. The Company believes that the estimated acquired IPR&D amounts represent the fair value at the date of acquisition and do not exceed the amount an independent third party would pay for the projects.

Goodwill - The excess of the purchase price over the fair value of net tangible and intangible assets acquired of $48.9 million was allocated to goodwill. Various factors contributed to the establishment of goodwill, including: the strategic benefit of further penetrating the neurostimulation market and entering the interventional market; the value of Enpath's highly trained assembled work force; the expected revenue growth over time that is attributable to increased market penetration from future products and customers; and the incremental value to the Company's IMC business from having a leads platform. The goodwill acquired in connection with the Enpath acquisition was allocated to the Company's IMC business segment and is not deductible for tax purposes.

IntelliSensing, LLC

On October 26, 2007, the Company's wholly-owned subsidiary, Electrochem Commercial Power, Inc. ("Electrochem") acquired substantially all of the assets of IntelliSensing, LLC ("IntelliSensing"). IntelliSensing designs and manufactures wireless sensor solutions that measure temperature, pressure, flow and other critical data. The acquisition expanded the Company's product and service offerings into the wireless sensing market which allows it to provide comprehensive solutions to its existing OEM customers.

This transaction was accounted for under the purchase method of accounting. Accordingly, the results of IntelliSensing's operations were included in the consolidated financial statements from the date of acquisition. The aggregate purchase price was $3.9 million, which was paid in cash. The excess of the purchase price over the fair value of the net tangible and intangible assets acquired of $1.8 million was preliminarily allocated to goodwill. As the values of certain assets and liabilities are preliminary in nature, they are subject to adjustment as additional information is obtained, including, but not limited to, the finalization of our intangible asset valuation, the finalization of the working capital adjustment as defined in the purchase agreement, the Company incurring direct acquisition costs in connection with this transaction and the resolution of pre-acquisition tax positions. The valuations will be finalized within 12 months of the close of the acquisition. When the valuations are finalized, any changes to the preliminary valuation of assets acquired or liabilities assumed may result in material adjustments to the fair value of the intangible assets acquired, as well as goodwill. Various factors contributed to the establishment of goodwill, including: the value of IntelliSensing's highly trained assembled work force and management team; the expected revenue growth over time and the incremental synergies to the Company's ECP business from having wireless sensing capabilities. Goodwill resulting from the IntelliSensing acquisition was allocated to the Company's ECP segment and is deductible for tax purposes. Approximately $1.5 million and $0.6 million of the purchase price represents the preliminary estimated fair value of acquired technology and patents, and a non-compete agreement with the previous owner of IntelliSensing, respectively.

Technology and patents consist of technical processes, patented and unpatented technology, manufacturing know-how and the understanding with respect to products or processes that have been developed by IntelliSensing and that will be leveraged in current and future products. The estimated fair value of these projects was determined using relief-from-royalty form of the income approach. This approach estimates what an independent third party would be willing to pay for use of the technology, and discounts those royalty streams in order to determine the fair value of the asset. The Company determined that the weighted average estimated useful life of the technology and patents is 8 years. This life is based upon management's estimate of the product life cycle associated with technology and patents before they will be replaced by new technologies. The expected cash flows associated with technology and patents were nominal after 8 years.

Quan Emerteq, LLC

On November 16, 2007, the Company acquired substantially all of the assets of Quan Emerteq, LLC ("Quan Emerteq"). Quan Emerteq designs, develops and manufactures single use medical device products for the vascular, CRM and neurostimulation markets. The acquisition further expanded the Company's product and service offerings to the CRM, neurostimulation and vascular marketplaces and added several new OEM customers.

This transaction was accounted for under the purchase method of accounting. Accordingly, the results of Quan Emerteq's operations were included in the consolidated financial statements from the date of acquisition. The aggregate purchase price was $60.1 million, consisting of the cash issued at closing to Quan Emerteq shareholders ($58.2 million), 60,000 shares of Greatbatch stock (valued at $24.55 per share) issued to Quan Emerteq shareholders and certain employees of Quan Emerteq ($1.5 million) and other

direct acquisition-related costs, including financial advisory, legal and accounting services ($0.4 million).

The cost of the acquisition was preliminarily allocated to the assets acquired and liabilities assumed from Quan Emerteq based on their fair values as of the close of the acquisition, with the amount exceeding the fair value recorded as goodwill. As the values of certain assets and liabilities are preliminary in nature, they are subject to adjustment as additional information is obtained, including, but not limited to, the finalization of our intangible asset valuation, the finalization of the working capital adjustment as defined in the purchase agreement, the Company incurring direct acquisition costs in connection with this transaction and the resolution of pre-acquisition tax positions. The valuations will be finalized within 12 months of the close of the acquisition. When the valuations are finalized, any changes to the preliminary valuation of assets acquired or liabilities assumed may result in material adjustments to the fair value of the intangible assets acquired, as well as goodwill.

The following table summarizes the preliminary allocation of the cost of the acquisition to the assets acquired and liabilities assumed as of the close of the acquisition (in thousands):

(in thousands)	As of November 16, 2007
Assets acquired	
Current assets	$ 5,4
Property, plant and equipment	4,6
Amortizing intangible assets	20,2
Goodwill	32,2
Other Assets	2
Total assets acquired	62,8
Liabilities assumed	
Current liabilities	2,7
Total liabilities assumed	2,7
Purchase price	$ 60,0

The fair values of the assets acquired and liabilities assumed were preliminarily determined using one of three valuation approaches: market, income and cost. The selection of a particular method for a given asset depended on the reliability of available data and the nature of the asset, among other considerations. The market approach, which indicates value for a subject asset based on available market pricing for comparable assets, was utilized for in-process and finished inventory. The income approach, which indicates value for a subject asset based on the present value of cash flows projected to be generated by the asset, was used for certain intangible assets such as technology and patents, customer relationships, and for the noncompete agreement with an employee. The projected cash flows were discounted at a required rate of return that reflects the relative risk of the Quan Emerteq transaction and the time value of money. The projected cash flows for each asset considered multiple factors, including

current revenue from existing customers, attrition trends, reasonable contract renewal assumptions from the perspective of a marketplace participant, and expected profit margins giving consideration to historical and expected margins. The cost approach, which estimates value by determining the current cost of replacing an asset with another of equivalent economic utility was used for raw materials inventory. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the asset.

Inventory - The fair value of the in-process and finished inventory acquired was estimated by applying a version of the market approach called the comparable sales method. This approach estimates the fair value of the asset by calculating the potential sales generated from selling the inventory and subtracting from it the costs related to the sale of that inventory and a reasonable profit allowance. Based upon this methodology, the Company recorded the inventory acquired at fair value resulting in an increase in inventory of $0.32 million. For 2007, the Company expensed as cost of sales $0.16 million of the step-up value relating to the acquired Quan Emerteq inventory sold during 2007. As of December 28, 2007, there was $0.16 million of inventory step-up value remaining in inventory to be expensed as the inventory is sold. Raw materials inventory was valued at replacement cost.

Intangible assets - The purchase price was allocated to specific intangible assets on a preliminary basis as follows (dollars in thousands):

	Amount assigned	Weighted average amortization period (years)	Dis r
Amortizable intangible assets			
Technology and patents	$ 5,100	7	
Customer relationships	14,600	15	
Noncompete agreements	500	5	
	$20,200	13	

Technology and patents - Technology and patents consists of technical processes, patented and unpatented technology, manufacturing know-how and the understanding with respect to products or processes that have been developed by Quan Emerteq and that will be leveraged in current and future products. The Company determined that the weighted average estimated useful life of the technology and patents is 7 years. This life is based upon management's estimate of the product life cycle associated with technology and patents before they will be replaced by new technologies. The expected cash flows associated with technology and patents were nominal after 7 years.

Customer relationships - Customer relationships represent the preliminary estimated fair value of both the contractual and non-contractual customer relationships Quan Emerteq has with OEMs as of the acquisition date. The primary customers of Quan Emerteq include Abbott Laboratories, Fox Hollow Technologies, Medtronic and Siemens Medical Solutions, some of which are also customers of Greatbatch. These relationships were valued separately from goodwill at the amount which an independent third party would be

willing to pay for these OEM relationships. The Company determined that the estimated useful life of the intangible assets associated with the existing customer relationships is 15 years. This life was based upon historical customer attrition and management's understanding of the industry.

Goodwill - The excess of the purchase price over the preliminary fair value of net tangible and intangible assets acquired of $32.2 million was allocated to goodwill. Various factors contributed to the establishment of goodwill, including: the value of Quan Emerteq's highly trained assembled work force and management team; the expected revenue growth over time that is attributable to increased market penetration from future products and customers; and the incremental value to the Company's IMC business from expanding its vascular, CRM and neurostimulation businesses. The goodwill acquired in connection with the Quan Emerteq acquisition was allocated to the Company's IMC business segment and is deductible for tax purposes.

Engineered Assemblies Corporation

On November 16, 2007, Electrochem acquired substantially all of the assets of Engineered Assemblies Corporation ("EAC") based in Teterboro, New Jersey, with operations in Suzhou, China. EAC is a leading provider of custom battery solutions and electronics integration focused on rechargeable battery systems. With the acquisition of EAC, the Company now can provide a range of rechargeable technology solutions and expanded into the external medical battery market.

This transaction was accounted for under the purchase method of accounting. Accordingly, the results of EAC's operations were included in the consolidated financial statements from the date of acquisition. The aggregate purchase price was $15.1 million, consisting of the cash issued at closing to EAC shareholders ($14.9 million), and other direct acquisition-related costs, including financial advisory, legal and accounting services ($0.2 million).

The cost of the acquisition was preliminarily allocated to the assets acquired and liabilities assumed from EAC based on their fair values as of the close of the acquisition, with the amount exceeding the fair value recorded as goodwill. As the values of certain assets and liabilities are preliminary in nature, they are subject to adjustment as additional information is obtained, including, but not limited to, the finalization of our intangible asset valuation, the finalization of the working capital adjustment as defined in the purchase agreement, the Company incurring direct acquisition costs in connection with this transaction and the resolution of pre-acquisition tax positions. The valuations will be finalized within 12 months of the close of the acquisition. When the valuations are finalized, any changes to the preliminary valuation of assets acquired or liabilities assumed may result in material adjustments to the fair value of the intangible assets acquired, as well as goodwill.

The following table summarizes the preliminary allocation of the cost of the acquisition to the assets acquired and liabilities assumed as of the close of the acquisition (in thousands):

(in thousands)	As of November 16, 2007
Assets acquired	

Current assets	$ 7,8
Property, plant and equipment	9
Amortizing intangible assets	2,3
Goodwill	5,4
Other Assets	
Total assets acquired	16,6
Liabilities assumed	
Current liabilities	1,5
Total liabilities assumed	1,5
Purchase price	$ 15,0

The fair values of the assets acquired and liabilities assumed were preliminarily determined using one of three valuation approaches: market, income and cost. The selection of a particular method for a given asset depended on the reliability of available data and the nature of the asset, among other considerations. The market approach, which indicates value for a subject asset based on available market pricing for comparable assets, was utilized for in-process and finished inventory. The income approach, which indicates value for a subject asset based on the present value of cash flows projected to be generated by the asset, was used for certain intangible assets such as technology and patents, customer relationships, and for the noncompete agreement with an employee. The projected cash flows were discounted at a required rate of return that reflects the relative risk of the EAC transaction and the time value of money. The projected cash flows for each asset considered multiple factors, including current revenue from existing customers, attrition trends, reasonable contract renewal assumptions from the perspective of a marketplace participant, and expected profit margins giving consideration to historical and expected margins. The cost approach, which estimates value by determining the current cost of replacing an asset with another of equivalent economic utility, was used for raw materials inventory. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the asset.

Inventory - The fair value of the in-process and finished inventory acquired was estimated by applying a version of the market approach called the comparable sales method. This approach estimates the fair value of the asset by calculating the potential sales generated from selling the inventory and subtracting from it the costs related to the sale of that inventory and a reasonable profit allowance. Based upon this methodology, the Company recorded the inventory acquired at fair value resulting in an increase in inventory of $0.42 million. For 2007, the Company expensed as cost of sales $0.21 million of the step-up value relating to the acquired EAC inventory sold during 2007. As of December 28, 2007, there was $0.21 million of inventory step-up value remaining in inventory to be expensed as the inventory is sold. Raw materials inventory was valued at replacement cost.

Intangible assets - The purchase price was allocated to specific intangible assets on a preliminary basis as follows (dollars in thousands):

Weighted

	Amount assigned	average amortization period (years)	Dis r
Amortizable intangible assets			
Technology and patents	$ 1,031	5	
Customer relationships	1,250	7	
Noncompete agreements	55	3	
	$2,336	6	

Technology and patents - Technology and patents consist of technical processes, patented and unpatented technology, manufacturing know-how and the understanding with respect to products or processes that have been developed by EAC and that will be leveraged in current and future products. The Company determined that the weighted average estimated useful life of the technology and patents is 5 years. This life is based upon management's estimate of the product life cycle associated with technology and patents before they will be replaced by new technologies. The expected cash flows associated with technology and patents were nominal after 5 years.

Customer relationships - Customer relationships represent the preliminary estimated fair value of both the contractual and non-contractual customer relationships EAC has with OEMs as of the acquisition date. The primary customers of EAC include 3M, IBM, Thales Communications and ZOLL Medical, some of which are also customers of Greatbatch. These relationships were valued separately from goodwill at the amount which an independent third party would be willing to pay for these OEM relationships. The Company determined that the estimated useful life of the intangible assets associated with the existing customer relationships is 7 years. This life was based upon historical customer attrition and management's understanding of the industry.

Goodwill - The excess of the purchase price over the preliminary fair value of net tangible and intangible assets acquired of $5.4 million was allocated to goodwill. Various factors contributed to the establishment of goodwill, including: the value of EAC's highly trained assembled work force and Management team; the expected revenue growth over time that is attributable to increased market penetration from future products and customers; and the incremental value to the Company's ECP business from expanding into the rechargeable battery market. The goodwill acquired in connection with the EAC acquisition was allocated to the Company's ECP business segment and is deductible for tax purposes.

Pro Forma Results

The following unaudited pro forma information presents the consolidated results of operations of the Company, Enpath, Quan Emerteq and EAC as if those acquisitions had occurred as of the beginning of each of the fiscal periods presented. Pro forma amounts do not reflect the acquisitions of BIOMEC and IntelliSensing as, excluding the IPR&D charge of $2.3 million related to the BIOMEC acquisition, these acquisitions did not materially impact the Company's results of operations (in thousands, except per share amounts):

(Unaudited)	Year-ended December 28, 2007	December 29, 2006
Sales	$375,567	$342,136
Net income	23,909	12,026
Earnings per share:		
Basic	$ 1.08	$ 0.55
Diluted	$ 1.03	$ 0.54

The unaudited pro forma information presents the combined operating results of Greatbatch, Enpath, Quan Emerteq and EAC, with the results prior to the acquisition date adjusted to include the pro forma impact of the adjustment of amortization of acquired intangible assets and depreciation of fixed assets based on the preliminary purchase price allocation, the elimination of acquisition expenses incurred by the acquired companies ($5.9 million), the elimination of the non-recurring IPR&D charge ($13.8 million) and inventory step-up adjustment recorded by Greatbatch in 2007 ($1.7 million), the adjustment to interest income reflecting the cash paid in connection with the acquisition, including acquisition-related expenses, at Greatbatch's weighted average interest income rate, and the impact of income taxes on the pro forma adjustments utilizing the federal statutory tax rate of 35%, except for IPR&D which is not deductible for tax purposes. The unaudited pro forma consolidated basic and diluted earnings per share are based on the consolidated basic and diluted weighted average shares of Greatbatch.

The unaudited pro forma results are presented for illustrative purposes only and do not reflect the realization of potential cost savings, and any related integration costs. Certain cost savings may result from the acquisition; however, there can be no assurance that these cost savings will be achieved. These pro forma results do not purport to be indicative of the results that would have actually been obtained if the acquisition occurred as of the beginning of each of the periods presented, nor does the pro forma data intend to be a projection of results that may be obtained in the future.

Subsequent Events

P Medical Holding SA & DePuy Orthopaedics' Chaumont, France Facility

On January 4, 2008, the Company acquired P Medical Holding SA ("Precimed") with offices in Orvin, Switzerland and Exton, PA, manufacturing operations in Switzerland and Indiana and sales offices in Japan, Asia and the United Kingdom. Precimed is a leading technology-driven supplier to the orthopedic industry. This transaction significantly diversifies the Company's business into the orthopedic market and establishes the Company as a leading OEM supplier to multiple market verticals.

On February 11, 2008, Precimed completed its previously announced acquisition of DePuy Orthopaedic's ("DePuy") Chaumont, France manufacturing facility. The Chaumont facility produces hip and shoulder implants for DePuy Ireland which distributes them worldwide through various DePuy selling entities. This transaction, which included a new four year supply agreement with DePuy, enhances Greatbatch's and Precimed's strategic relationship with one of the largest orthopedic companies in the world. The addition of this facility will align Precimed closer to its orthopedic OEM customers and further extends its offerings to a full range of orthopedic

implants.

The Company acquired all of the outstanding shares of Precimed and the assets of the Chaumont facility in exchange for approximately $130 million in cash, and a contingent payment, as defined in the Precimed purchase agreement, which can range from 0 Swiss Francs ("CHF") to 12,000,000 CHF depending on Precimed's 2008 earnings performance. Based upon the exchange ratio of 1.1169 CHF per one U.S. dollar as of December 28, 2007 the maximum contingent payment would be approximately $10.7 million and is subject to change due to foreign currency fluctuations and the final calculation of the contingent payment. The purchase price was funded with cash on hand (approximately $13 million) and borrowings under the Company's revolving credit agreement (approximately $117 million). These transactions will be accounted for under the purchase method of accounting.

3. SHORT-TERM INVESTMENTS

Short-term investments available for sale are comprised of the following (in thousands):

	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fai value
December 28, 2007				
Commercial Paper	$ 1,087	$ 5	$ -	$ 1,
U.S. Government Agencies	1,469	4	-	1,
Corporate Bonds	4,452	4	(4)	4,
Total available-for-sale securities	$ 7,008	$ 13	$ (4)	$ 7,
December 29, 2006				
Equity Security	$ 291	$ 4,588	$ -	$ 4,
Auction Rate Securities and Other	66,537	4	(4)	66,
Total available-for-sale securities	$ 66,828	$ 4,592	$ (4)	$ 71,

During 2007, the Company sold an equity security investment which resulted in a pre-tax gain of $4.0 million ($2.6 million net of tax) or $0.12 per diluted share.

4. INVENTORIES

Inventories are comprised of the following (in thousands):

	December 28, 2007	December 29, 2006

Raw material	$ 38,561	$ 28,568
Work-in-process	19,603	13,528
Finished goods	13,718	15,571
Total	$ 71,882	$ 57,667

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are comprised of the following (in thousands):

	December 28, 2007	December 29, 2006
Manufacturing machinery and equipment	$ 80,447	$ 69,453
Buildings and building improvements	35,611	32,793
Construction work in process	23,115	11,295
Information technology hardware and software	21,671	19,787
Leasehold improvements	19,957	12,142
Land and land improvements	6,024	5,328
Furniture and fixtures	5,345	4,230
Other	210	129
	192,380	155,157
Accumulated depreciation	(77,434)	(63,288)
Total	$ 114,946	$ 91,869

Depreciation expense for property, plant and equipment during 2007, 2006 and 2005 was approximately $16.4 million, $14.8 million and $15.1 million, respectively.

6. AMORTIZING INTANGIBLE ASSETS

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

	Gross carrying amount	Accumulated amortization	Net carrying amount
December 28, 2007			
Purchased technology and patents	$ 69,813	$ (28,968)	$ 40,845
Customer lists	29,983	(840)	29,143
Other	2,660	(1,380)	1,280
Total amortizing intangible assets	$ 102,456	$ (31,188)	$ 71,268
December 29, 2006			
Purchased technology and patents	$ 52,511	$ (24,433)	$ 28,078
Other	1,177	(1,177)	-

Total amortizing intangible assets	$ 53,688	$ (25,610)	$ 28,078

Intangible amortization expense was $5.6 million, $3.8 million and $3.8 million for 2007, 2006 and 2005, respectively. Prior to 2007, all intangible amortization expense was included in Cost of Sales. For 2007, $1.0 million of intangible amortization expense was included in Selling, General and Administrative Expenses and related to the customer lists and non-compete agreements acquired in 2007. Annual intangible amortization expense is estimated to be $8.9 million for 2008, $8.2 million for 2009, and $7.6 million in 2010 and 2011 and $7.5 million in 2012. These amounts do not include the amortization expense that will be recorded in connection with our 2008 acquisitions - See Note 2 "Acquisitions."

7. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities are comprised of the following (in thousands):

	December 28, 2007	December 29, 2006
Salaries and benefits	$ 10,655	$ 11,055
Profit sharing and bonuses	13,669	13,928
Warranty	1,453	1,993
Other	5,198	2,642
Total	$ 30,975	$ 29,618

8. DEBT

Convertible subordinated notes is comprised of the following (in thousands):

	December 28, 2007	December 29, 2006
2.25% convertible subordinated notes I, due 2013	$ 52,218	$ 170,000
2.25% convertible subordinated notes II, due 2013	197,782	-
Unamortized discount	(8,802)	-
Total long-term debt	$ 241,198	$ 170,000

In May 2003, the Company completed a private placement of $170 million of 2.25% convertible subordinated notes, due 2013 ("CSN I"). In November 2003, the Company had a registration statement with the SEC declared effective with respect to these notes and the underlying common stock. In March 2007, the Company entered into separate, privately negotiated agreements to exchange $117.8 million of CSN I for an equivalent principal amount of a new series of 2.25% convertible subordinated notes due 2013 ("CSN II") (collectively the "Exchange") at a 5% discount.

The primary purpose of the Exchange was to eliminate the June 15, 2010 call and put option that is included in the terms of CSN I. In connection with the Exchange, the Company issued an additional $80 million aggregate principal amount of CSN II at a price of $950 per $1,000 of principal. In June 2007, the Company had a registration statement with the SEC declared effective with respect to these notes and the underlying common stock.

The Exchange was accounted for as an extinguishment of debt and resulted in a pre-tax gain of $4.5 million ($2.9 million net of tax) or $0.13 per diluted share. As a result of the extinguishment, the Company had to recapture the tax interest expense that was previously deducted on the extinguished notes. This resulted in an additional current income tax liability of approximately $11.3 million, which was paid in 2007. This amount was previously recorded as a non-current deferred tax liability on the balance sheet. The following is a summary of the significant terms of CSN I and CSN II:

CSN I - The notes bear interest at 2.25% per annum, payable semi-annually. Holders may convert the notes into shares of the Company's common stock at a conversion rate of 24.8219 shares per $1,000 of principal, subject to adjustment, before the close of business on June 15, 2013 only under the following circumstances: (1) during any fiscal quarter commencing after July 4, 2003, if the closing sale price of the Company's common stock exceeds 120% of the $40.29 conversion price for at least 20 trading days in the 30 consecutive trading day period ending on the last trading day of the preceding fiscal quarter; (2) subject to certain exceptions, during the five business days after any five consecutive trading day period in which the trading price per $1,000 of principal for each day of such period was less than 98% of the product of the closing sale price of the Company's common stock and the number of shares issuable upon conversion of $1,000 of principal; (3) if the notes have been called for redemption; or (4) upon the occurrence of certain corporate events.

Beginning June 20, 2010, the Company may redeem any of the notes at a redemption price of 100% of their principal amount, plus accrued interest. Note holders may require the Company to repurchase their notes on June 15, 2010 or at any time prior to their maturity following a fundamental change, as defined in the indenture agreement, at a repurchase price of 100% of their principal amount, plus accrued interest. The notes are subordinated in right of payment to all of our senior indebtedness and effectively subordinated to all debts and other liabilities of the Company's subsidiaries.

Beginning with the six-month interest period commencing June 15, 2010, the Company will pay additional contingent interest during any six-month interest period if the trading price of the notes for each of the five trading days immediately preceding the first day of the interest period equals or exceeds 120% of the principal amount of the notes.

CSN II - The notes bear interest at 2.25% per annum, payable semi-annually. The holders may convert the notes into shares of the Company's common stock at a conversion price of $34.70 per share, which is equivalent to a conversion ratio of 28.8219 shares per $1,000 of principal. The conversion price and the conversion ratio will adjust automatically upon certain changes to the Company's capitalization. CSN II notes were issued at a price of $950 per $1,000 of principal. The effective interest rate of CSN II notes, which takes into consideration the amortization of the discount and deferred fees related to the issuance of those notes, was 3.55%.

The notes are convertible at the option of the holders at such time as: (i) the closing price of the Company's common stock exceeds 150% of the conversion price of the notes for 20 out of 30 consecutive trading days; (ii) the trading price per $1,000 of principal is less than 98% of the product of the closing sale price of common stock for each day during any five consecutive trading day period and the conversion rate per $1,000 of principal; (iii) the notes have been called for redemption; (iv) the Company distributes to all holders of common stock rights or warrants entitling them to purchase additional shares of common stock at less than the average closing price of common stock for the ten trading days immediately preceding the announcement of the distribution; (v) the Company distributes to all holders of common stock any form of dividend which has a per share value exceeding 5% of the price of the common stock on the day prior to such date of distribution; (vi) the Company affects a consolidation, merger, share exchange or sale of assets pursuant to which its common stock is converted to cash or other property; (vii) the period beginning 60 days prior to but excluding June 15, 2013; and (viii) certain fundamental changes, as defined in the indenture agreement, occur or are approved by the Board of Directors.

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Conversions in connection with corporate transactions that constitute a fundamental change require the Company to pay a premium make-whole amount whereby the conversion ratio on the notes may be increased by up to 8.2 shares per $1,000 of principal. The premium make-whole amount will be paid in shares of common stock upon any such conversion, subject to the net share settlement feature of the notes described below.

The notes contain a net share settlement feature that requires the Company to pay cash for each $1,000 of principal. Any amounts in excess of $1,000 will be settled in shares of the Company's common stock, or at the Company's option, cash. The Company has a one-time irrevocable election to pay the holders in shares of its common stock, which it currently does not plan to exercise.

The notes are redeemable by the Company at any time on or after June 20, 2012, or at the option of a holder upon the occurrence of certain fundamental changes, as defined in the agreement, affecting the Company. The notes are subordinated in right of payment to all of our senior indebtedness and effectively subordinated to all debts and other liabilities of the Company's subsidiaries.

The fair-value of the convertible subordinated notes based on recent sales prices as of December 28, 2007 and December 29, 2006 was approximately $220 million and $160 million, respectively.

Revolving Line of Credit - In May 2007, the Company entered into a new senior credit facility (the "New Credit Facility") consisting of a $235 million revolving credit facility, which can be increased to $335 million upon the Company's request and approval of a simple majority of the lenders. The New Credit Facility also contains a $15 million letter of credit subfacility and a $15 million swingline subfacility. This New Credit Facility replaced the Company's previous $50 million revolving credit facility. The New Credit Facility is secured by the Company's non-realty assets including cash, accounts and notes receivable, and inventories, and has an expiration date of May 22, 2012 with a one-time option to extend to April 1, 2013 if no default has occurred. Interest rates under the New Credit Facility are, at the Company's option, based upon the current prime rate or the LIBOR plus a margin that varies with the Company's leverage ratio. If interest is paid based upon the prime rate, the applicable margin

is between minus 1.25% and 0.00%. If interest is paid based upon the LIBOR, the applicable margin is between 1.00% and 2.00%. The Company is required to pay a commitment fee between 0.125% and 0.250% per annum on the unused portion of the New Credit Facility based on the Company's leverage ratio.

The New Credit Facility contains limitations on the incurrence of indebtedness, limitations on the incurrence of liens and licensing of intellectual property, limitations on investments and restrictions on certain payments. Except to the extent paid for by common equity of Greatbatch or paid for out of cash on hand, the New Credit Facility limits the amount paid for acquisitions to $100 million. The restrictions on payments, among other things, limit repurchases of Greatbatch's stock to $60 million and limits the ability of the Company to make cash payments upon conversion of CSN II. These limitations can be waived upon the Company's request and approval of a simple majority of the lenders. Such waiver was obtained in order to fund the Precimed acquisition in 2008.

In addition, the New Credit Facility requires the Company to maintain a ratio of adjusted EBITDA, as defined in the credit agreement, to interest expense of at least 3.00 to 1.00, and a total leverage ratio, as defined in the credit agreement, of not greater than 5.00 to 1.00 from May 22, 2007 through September 29, 2009 and not greater than 4.50 to 1.00 from September 30, 2009 and thereafter.

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

As of December 28, 2007 and December 29, 2006 the Company had no balance outstanding on its revolving line of credit. In connection with the Company's acquisitions that closed in January and February of 2008, the Company borrowed approximately $117 million under the New Credit Facility (see Note 2 "Acquisitions").

Deferred Financing Fees - The following is a reconciliation of deferred financing fees for 2007 and 2006, which are included in other assets (in thousands):

Balance at December 31, 2005	$ 2,953
Amortization during the year	(648)
Balance at December 29, 2006	2,305
Financing costs deferred	6,632
Write-off during the year	(1,416)
Amortization during the year	(1,110)
Balance at December 28, 2007	$ 6,411

9. EMPLOYEE BENEFIT PLANS

Savings Plan - The Company sponsors a defined contribution 401(k) plan, which covers substantially all of its employees. The plan provides for the deferral of employee compensation under Section 401(k) and a discretionary Company match. In 2007, 2006 and 2005, this match was $0.35 per dollar of participant deferral, up to 6% of the total compensation for each participant. Net costs related to this defined contribution plan were $1.0 million in 2007 and $0.9 million in 2006 and 2005.

In addition to the above, under the terms of the 401(k) plan document there is an annual discretionary defined contribution equal to five percent of each employee's eligible compensation. This amount is contributed to the 401(k) plan in the form of Company stock. Compensation cost recognized related to the defined contribution was approximately $3.6 million in 2007, $3.3 million in 2006 and $2.8 million in 2005. As of December 28, 2007, the 401(k) Plan held 473,927 shares of Company stock and there were 174,434 committed-to-be released shares for the plan, which equals the estimated number of shares to settle the liability based on the closing market price of the Company's stock at December 28, 2007 of $19.91.

Education Assistance Program - The Company reimburses tuition, textbooks and laboratory fees for college or other job related programs for all of its employees. The Company also reimburses college tuition for the dependent children of its full-time employees. For certain employees, the dependent children benefit vests on a straight-line basis over ten years. Minimum academic achievement is required in order to receive reimbursement under both programs. Aggregate expenses under the programs were approximately $1.5 million, $1.2 million and $0.9 million in 2007, 2006 and 2005, respectively.

10. STOCK-BASED COMPENSATION

Compensation costs related to share-based payments for 2007 totaled $5.7 million, $3.8 million net of tax, or $0.17 per diluted and basic share. This compares to $6.4 million, $4.4 million net of tax, or $0.17 per diluted and $0.20 per basic share for 2006. The 2007 and 2006 expense amounts include $0.1 million and $2.4 million, respectively, for the accelerated vesting for certain retirement-eligible employees and $0.6 million and $0.3 million for modifications, respectively. This modification expense relates to the Company's adoption of executive retirement guidelines in 2005 for senior level executives and the extension of the exercise period after termination for all outstanding stock options of its former Chief Executive Officer in 2006. Stock-based compensation expense included in the Consolidated Statements of Cash Flows includes costs recognized for stock options, restricted stock, restricted stock units and the annual share contribution to the 401(k) Plan. See Note 9 - "Employee Benefit Plans."

Proceeds from the exercise of stock options under stock option plans are credited to common stock at par value and the excess is credited to additional paid-in capital. A portion of the Company's granted options qualify as incentive stock options ("ISO") for income tax purposes. As such, a tax benefit is not recorded at the time the compensation cost related to the options is recorded for book purposes due to the fact that an ISO does not ordinarily result in a tax benefit unless there is a disqualifying disposition. Stock option grants of non-qualified options result in the creation of a deferred tax asset, which is a temporary difference, until the time that the option in exercised. Due to the treatment of incentive stock options for tax purposes, the Company's effective tax rate from year to year is subject to variability.

During 2007, the Board of Directors approved the grant of 146,231 shares of performance based non-qualified stock options. As of December 28, 2007, 138,161 shares of the original award remain outstanding due to forfeitures. The performance metrics for these awards cover a three-year performance period beginning in 2007 and include the achievement of revenue, operating earnings and operating cash flow targets. Compensation expense related to

these awards amounted to $0.3 million during 2007.

During 2006, the Board of Directors approved the grant of 183,648 shares of performance based non-qualified stock options. As of December 28, 2007, 149,236 shares of the original award remain outstanding due to forfeitures. The performance metrics for these awards cover a three-year performance period beginning in 2006 and include the achievement of revenue, operating earnings and operating cash flow targets. Compensation expense related to these awards amounted to $0.5 million and $0.2 million during 2007 and 2006, respectively.

Stock-based compensation expense is only recorded for those awards that are expected to vest. Forfeiture estimates for determining appropriate stock-based compensation expense are estimated at the time of grant based on historical experience and demographic characteristics. Revisions are made to those estimates in subsequent periods if actual forfeitures differ from estimated forfeitures. A 9% annual forfeiture rate estimate was used for the stock-based compensation expense recorded during 2007 and 2006 unless it was certain that the awards would vest (i.e. retirement eligible employees, awards that immediately vest). In those instances, a 0% forfeiture rate was used.

Stock Options

Summary of Plans
The Company's 1997 Stock Option Plan ("1997 Plan") authorized the issuance of up to 480,000 shares of nonqualified and incentive stock options to purchase the Company's common stock, subject to the terms of the plan. The stock options granted under the 1997 Plan generally vest over a five-year period and may vary depending upon the achievement of certain performance targets as determined by the Board of Directors. The stock options expire 10 years from the date of the grant. Stock options were granted at exercise prices equal to or greater than the fair market value of the Company's common stock on the date of grant.

The Company's 1998 Stock Option Plan ("1998 Plan") authorized the issuance of up to 1,220,000 shares of nonqualified and incentive stock options to purchase the Company's common stock, subject to the terms of the plan. The stock options granted under the 1998 Plan vest over a three to five year period and may vary depending upon the achievement of certain performance targets as determined by the Board of Directors. The stock options expire 10 years from the date of grant. Stock options were granted at exercise prices equal to or greater than the fair value of the Company's common stock on the date of grant.

The Company has a stock option plan that provides for the issuance of nonqualified stock options to Non-Employee Directors ("Director Plan"). The Director Plan authorized the issuance of up to 100,000 shares of nonqualified stock options to purchase the Company's common stock from its treasury, subject to the terms of the plan. The stock options granted under the Director Plan vest immediately. The stock options expire 10 years from the date of grant. Stock options were granted at exercise prices equal to or greater than the fair value of the Company's common stock on the date of grant.

The Company's 2005 Stock Incentive Plan ("2005 Plan"), as amended and

approved by stockholders at the 2007 Annual Meeting of Stockholders, authorizes the issuance of up to 2,450,000 shares of equity incentive awards including nonqualified and incentive stock options to purchase the Company's common stock, subject to the terms of the plan. Upon adoption of the amendment to the 2005 Plan at the 2007 Annual Meeting of Stockholders, any new stock option issuances are required to be issued from the 2005 Plan and all previous plans have been frozen for new share issuances. The stock options granted under the 2005 Plan generally vest over a four to five year period and may vary depending upon the achievement of certain performance targets as determined by the Board of Directors and the terms of each specific grant. The stock options expire 10 years from the date of grant. Stock options are granted at exercise prices equal to or greater than the fair value of the Company's common stock on the date of grant.

As of December 28, 2007, 1,317,904 shares were available for future grants of options under the 2005 Plan.

The following table summarizes stock option activity related to the Company's plans:

	Number of stock options	Weighted average exercise price	Wei av rem cont (in
Outstanding at January 1, 2005	1,249,854	$ 23.68	
Granted	477,906	20.95	
Exercised	(97,888)	10.91	
Forfeited or Expired	(232,712)	26.90	
Outstanding at December 30, 2005	1,397,160	23.16	
Granted(2)	483,265	23.92	
Exercised	(160,605)	12.97	
Forfeited or Expired	(93,291)	24.94	
Outstanding at December 29, 2006	1,626,529	24.27	
Granted(3)	376,708	26.87	
Exercised	(141,302)	19.10	
Forfeited or Expired	(117,913)	27.50	
Outstanding at December 28, 2007	1,744,022	$ 25.04	
Expected to Vest at December 28, 2007	1,665,266	$ 25.04	
Exercisable at December 28, 2007	903,368	$ 25.56	

(1) Intrinsic value is calculated for in-the-money options (exercise price less than market price) outstanding and/or exercisable as the difference between the market price of our common shares as of December 28, 2007 ($19.91) and the weighted average exercise price of the underlying options, multiplied by the number of options outstanding and/or exercisable.

(2) Includes 183,648 performance based stock options which had a weighted average exercise price of $22.38 per share.
(3) Includes 146,231 performance based stock options which had a weighted average exercise price of $29.65 per share.

The following table provides certain information relating to the exercise of stock options (in thousands):

	Year Ended	
	December 28, 2007	December 2 2006
Stock Options Exercised		
Intrinsic value	$ 1,338	$
Cash received	2,699	
Tax benefit realized	292	

As of December 28, 2007, $5.2 million of unrecognized compensation cost related to non-vested stock options is expected to be recognized over a weighted-average period of approximately 3 years. Shares are distributed from the Company's authorized but unissued reserve upon the exercise of stock options or treasury stock if available. The Company does not intend to purchase treasury shares to fund the future exercises of stock options.

Fair Value

The Company utilizes the Black-Scholes Option Pricing Model to determine the fair value of stock options under SFAS No. 123(R), consistent with that used for pro forma disclosures in prior years. Management is required to make certain assumptions with respect to selected model inputs, including anticipated changes in the underlying stock price (i.e. expected volatility) and option exercise activity (i.e. expected life). Expected volatility is based on the historical volatility of the Company's stock over the most recent period commensurate with the estimated expected life of the stock options. The expected life of options granted, which represents the period of time that the options are expected to be outstanding, is based primarily on historical data. The expected dividend yield is based on the Company's history and expectation of dividend payouts. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for a period commensurate with the estimated expected life. If factors change and result in different assumptions in the application of SFAS No. 123(R) in future periods, the stock option expense that the Company records for future grants may differ significantly from what the Company has recorded in the current period.

The weighted-average fair value and assumptions used to value options granted are as follows:

	December 28,	December 2

	2007	2006
Weighted-average fair value	$ 11.84	$ 10
Risk-free interest rate	4.52%	4
Expected volatility	40%	
Expected life (in years)	5	
Expected dividend yield	0%	

Restricted Stock and Restricted Stock Units

Summary of Plans

The Company's 2002 Restricted Stock Plan authorized the issuance of stock awards to employees. The number of shares that were reserved for issuance under the plan could not exceed 200,000. Under this plan, restricted stock awards are either time-vested or performance-vested based on the terms of each individual award agreement. Time-vested restricted stock vests 50% on the second fiscal year-end from the date of the award and 25% on the third and fourth fiscal year-end from the date of the award. Performance-vested restricted stock vests upon the achievement of certain annual diluted earnings per share targets by the company, or the seventh anniversary date of the award.

The Company's 2005 Plan, as amended and approved by stockholders at the 2007 Annual Meeting of Stockholders, authorizes the issuance of restricted stock, restricted stock units and stock bonuses of up to 850,000 shares, subject to the terms of the plan. Upon adoption of the amendment to the 2005 Plan at the 2007 Annual Meeting of Stockholders, any new restricted stock, restricted stock units and stock bonus issuances are required to be issued from the 2005 Plan and all previous plans have been frozen for new share issuances. Time-vested restricted stock granted under the 2005 Plan generally vest 50% on the second fiscal year-end from the date of the award and 25% on the third and fourth fiscal year-end from the date of the award. Performance-vested restricted stock granted under the 2005 Plan vests upon the achievement of certain annual diluted earnings per share targets by the company, or the seventh anniversary date of the award. Performance-vested restricted stock units granted under the 2005 Plan vest upon the completion of Board approved strategic initiatives.

As of December 28, 2007, there were 575,767 shares available for future grants of restricted stock, restricted stock units or stock bonuses under the 2005 Plan, subject to the overall limit imposed by the 2005 Plan.

Restricted Stock and Restricted Stock Unit Activity

The following table summarizes restricted stock and restricted stock unit activity related to the Company's plans:

	Activity
Nonvested at January 1, 2005	40,300
Shares granted	67,891
Shares vested	-
Shares forfeited	(14,235)

Nonvested at December 30, 2005	93,956
Shares granted (1)	145,126
Shares vested	(25,911)
Shares forfeited	(9,015)
Nonvested at December 29, 2006	204,156
Shares granted	122,031
Shares vested	(36,435)
Shares forfeited	(7,618)
Nonvested at December 28, 2007	282,134

(1) Includes 50,879 performance based restricted stock units which vested in January 2008.

The fair value of restricted stock and restricted stock units is equal to the fair value of the Company's stock on the date of grant. The realized tax benefit from the vesting of restricted stock was $0.03 million, $0.05 million and $0 for 2007, 2006 and 2005, respectively. As of December 28, 2007, there was $4.0 million of total unrecognized compensation cost related to the restricted stock and restricted stock unit awards. That cost is expected to be recognized over a weighted-average period of approximately 3 years.

11. OTHER OPERATING EXPENSES

The following charges were recorded in other operating expenses in the Company's Consolidated Statement of Operations and Comprehensive Income (in thousands).

	Year En	
	December 28, 2007	December 2006
(a) Alden Facility consolidation	$ -	$
(b) Carson City Facility shutdown and Tijuana Facility consolidation No. 1	331	
(c) Columbia Facility shutdown, Tijuana Facility consolidation No. 2 and RD&E consolidation	4,366	
(d) Electrochem Commercial Power expansion	531	
(e) Tijuana Facility start-up	-	
(f) Asset dispositions and other	96	
(g) Severance	-	
	$ 5,324	$

(a) Alden Facility consolidation. Beginning in the first quarter of 2005 and ending in the second quarter of 2006 the Company consolidated the

medical capacitor manufacturing operations in Cheektowaga, NY, and the implantable medical battery manufacturing operations in Clarence, NY, into the advanced power source manufacturing facility in Alden, NY ("Alden Facility"). The Company also consolidated the capacitor research, development and engineering operations from the Cheektowaga, NY facility into the Technology Center in Clarence, NY.

The total cost for these consolidation efforts was $3.4 million, which was below the Company's original estimate of $3.5 to $4.0 million. The expenses for the Alden Facility consolidation are included in the IMC business segment and included the following:

- Production inefficiencies and revalidation - $0.3 million;
- Moving and facility closures - $2.7 million; and
- Other - $0.4 million.

Accrued liabilities related to the Alden Facility consolidation are comprised of the following (in thousands):

	Production inefficiencies and revalidation	Training	Movin fac clo
Balance, December 31, 2005	$ -	$ -	$
Restructuring charges	99	-	
Cash payments	(99)	-	
Accelerated depreciation/ asset write-offs	-	-	
Balance, December 29, 2006	$ -	$ -	$

(b) Carson City Facility shutdown and Tijuana Facility consolidation No. 1. Beginning in the first quarter of 2005 and ending in the third quarter of 2007 the Company consolidated its Carson City, NV facility ("Carson City Facility") into its Tijuana, Mexico facility ("Tijuana Facility consolidation No. 1").

The total cost for this consolidation was $7.5 million which, was above the original estimates, as the Company delayed the closing of this facility in order to accommodate a customer's regulatory approval. The major categories of costs include the following:

- Costs related to the shutdown of the Carson City Facility:
  a. Severance and retention - $3.6 million;
  b. Accelerated depreciation - $0.6 million; and
  c. Other - $0.3 million.

- Costs related to the Tijuana Facility consolidation No. 1:
  a. Production inefficiencies and revalidation - $0.5 million;
  b. Relocation and moving - $0.2 million;
  c. Personnel (including travel, training and duplicate wages) - $1.7 million; and
  d. Other - $0.6 million.

All categories of costs are considered to be cash expenditures, except

accelerated depreciation. The expenses for the Carson City Facility shutdown and the Tijuana Facility consolidation No. 1 is included in the IMC business segment.

Accrued liabilities related to the Carson City Facility shutdown are comprised of the following (in thousands):

	Severance and retention	Accelerated depreciation
Balance, December 31, 2005	$ 2,096	$ -
Restructuring charges	1,455	5
Cash payments	(2,394)	-
Write-offs	-	(5
Balance, December 29, 2006	$ 1,157	$ -
Restructuring charges	85	-
Cash payments	(1,092)	-
Write-offs	-	-
Balance, December 28, 2007	$ 150	$ -

Accrued liabilities related to the Tijuana Facility consolidation No. 1 are comprised of the following (in thousands):

	Production inefficiencies and revalidation	Relocation and moving	Personn
Balance, December 31, 2005	$ -	$ -	$
Restructuring charges	288	1	
Cash payments	(288)	(1)	(
Write-offs	-	-	
Balance, December 29, 2006	$ -	$ -	$
Restructuring charges	220	-	
Cash payments	(220)	-	
Write-offs	-	-	
Balance, December 28, 2007	$ -	$ -	$

(c) Columbia Facility shutdown, Tijuana Facility consolidation No. 2 and RD&E consolidation. On November 16, 2005, the Company announced its intent to close both its Columbia, MD facility ("Columbia Facility") and its Fremont, CA Advanced Research Laboratory ("ARL"). The manufacturing operations at the Columbia Facility will be moved into the Tijuana Facility ("Tijuana Facility consolidation No. 2"). The research, development and engineering ("RD&E") and product development functions at the Columbia Facility and at ARL was relocated to the Technology Center in Clarence, NY. The Columbia Facility shutdown, which was previously scheduled to be completed in the first quarter of 2008, is now expected to be finalized in

mid-2008 based on customer's qualification activities.

The total estimated cost for this facility consolidation plan is anticipated to be between $11.6 million and $12.1 million of which $10.6 million has been incurred through December 28, 2007. The ARL move and closure portion of this consolidation project is complete. The Company expects to incur and pay the remaining cost for the other portions of the consolidation project over the next three fiscal quarters through September 2008.

The major categories of costs include the following:

- Costs related to the shutdown of the Columbia Facility and ARL and the move and consolidation of the RD&E functions to Clarence, NY:
  a. Severance and retention - $3.8 to $4.0 million;
  b. Personnel (including travel, training and duplicate wages) - $1.6 million
  c. Accelerated depreciation/asset write-offs - $0.5 million; and
  d. Other - $0.4 to $0.5 million.

- Costs related to Tijuana Facility consolidation No. 2:
  a. Production inefficiencies and revalidation - $1.0 to $1.1 million;
  b. Relocation and moving - $0.4 million;
  c. Personnel (including travel, training and duplicate wages) - $3.0 to $3.1 million; and
  d. Other (including asset write-offs) - $0.9 million.

All categories of costs are considered to be cash expenditures, except for accelerated depreciation and asset write-offs. The expenses for the Columbia Facility and ARL shutdowns, the Tijuana Facility consolidation No. 2 and the RD&E consolidation are included in the IMC business segment.

Accrued liabilities related to the Columbia Facility and ARL shutdowns and the RD&E consolidation are comprised of the following (in thousands):

	Severance and retention	Personnel	Accelerated depreciation / asset write-offs
Balance, December 31, 2005	$ 379	$ -	$ -
Restructuring charges	1,918	701	74
Cash payments	(550)	(701)	-
Write-offs	-	-	(74)
Balance, December 29, 2006	$ 1,747	$ -	$ -
Restructuring charges	1,320	574	-
Cash payments	(1,367)	(574)	-
Write-offs	-	-	-
Balance, December 28, 2007	$ 1,700	$ -	$ -

Accrued liabilities related to Tijuana Facility consolidation No. 2 are comprised of the following (in thousands):

	Production inefficiencies and revalidation	Relocation and moving	Perso
Balance, December 31, 2005	$ -	$ -	$
Restructuring charges	264	149	1
Cash payments	(264)	(149)	(1
Balance, December 29, 2006	$ -	$ -	$
Restructuring charges	817	6	1
Cash payments	(817)	(6)	(1
Balance, December 28, 2007	$ -	$ -	$

(d) Electrochem expansion. In February 2007, the Company announced that it will close its current manufacturing facility in Canton, MA and construct a new 80,000 square foot replacement facility in Raynham, MA. The expected completion of this $28 million expansion project is in the fourth quarter of 2008. The total expense to be recognized for this relocation is estimated to be $2.4 million to $2.6 million, of which $0.5 million has been incurred primarily related to accelerated depreciation. Costs related to this move are included in the ECP business segment and include the following:

- Production inefficiencies and revalidation - $0.6 million;
- Moving and facility closure - $0.9 million to $1.0 million;
- Accelerated depreciation - $0.6 million; and
- Other - $0.3 million to $0.4 million.

(e) Tijuana Facility start-up. Other Tijuana start-up expenses (not associated with the Carson City Facility or Columbia Facility consolidations) during 2005 amounted to $1.4 million. These expenses are primarily related to the initial start-up of the value-added assembly business.

(f) Asset dispositions and other. During 2007, the Company had various asset disposals offset by a $0.5 million of insurance proceeds on previously disposed assets.

During 2006, the Company recorded a loss of $4.4 million related to the write-off of a battery test system that was under development. Upon completion of the Company's engineering and technical evaluation, it was determined that the system could not meet the required specifications in a cost effective manner. This charge was included in the IMC business segment. The remaining expense for 2006 includes charges for various asset dispositions and $0.8 million for professional fees related to a potential acquisition that was no longer considered probable.

During 2005, a $2.8 million charge was recorded for the write-down of automated cathode assembly equipment for the IMC segment. The remaining expense for 2005 relates to various asset dispositions of approximately

$3.3 million and the cost to exit a development agreement of $1.2 million.

(g) Severance charges. During the fourth quarter of 2006, the Company implemented a plan for consolidating its corporate and business unit organization structure. As a result, severance charges of $2.49 million were recorded in 2006. Expense of $1.42 million was recorded in the IMC segment, $0.04 million in the ECP segment and $1.3 million was recorded in unallocated operating expenses under business segment information. Accrued severance related to this consolidation plan was $0.3 million and $1.8 million as of December 28, 2007 and December 29, 2006, respectively.

During the first quarter of 2005, the Company implemented a 4% workforce reduction as a continuation of cost containment efforts initiated mid-year 2004. As a result, severance charges of $1.5 million were recorded and paid in 2005. Expense of $0.9 million was recorded in the IMC segment, $0.2 million in the ECP segment and $0.4 million was recorded in unallocated operating expenses under business segment information.

12. INCOME TA