

Edgar Filing: GREATBATCH, INC. - Form 10-K

GREATBATCH, INC.  
Form 10-K  
February 27, 2007

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 29, 2006

Commission File Number 1-16137

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

Delaware  
(State of Incorporation)

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

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, or a non-accelerated filer (as defined in Exchange Act Rule 12b-2).

**Edgar Filing: GREATBATCH, INC. - Form 10-K**

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ]

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 30, 2006, based on the last sale price of \$23.60, as reported on the New York Stock Exchange: \$508.5 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, 2007: 22,113,022

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 2007 Annual Meeting of Stockholders	----- Part III, Item 10 "Directors, Executive Officers and Corp  Part III, Item 11 "Executive Compensation"  Part III, Item 12 "Security Ownership of Certain Benefici Related Stockholder Matters"  Part III, Item 13 "Certain Relationships and Related Tran Independence"  Part III, Item 14 "Principal Accounting Fees and Services

TABLE OF CONTENTS

ITEM  
NUMBER  
-----

PART I

1	Business.....
1A	Risk Factors.....
1B	Unresolved Staff Comments.....

Edgar Filing: GREATBATCH, INC. - Form 10-K

2 Properties.....
3 Legal Proceedings.....
4 Submission of Matters to a Vote of Security Holders.....

PART II

5 Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Pur
6 Selected Financial Data.....
7 Management's Discussion and Analysis of Financial Condition and Results of Operat
7A Quantitative and Qualitative Disclosures About Market Risk.....
8 Financial Statements and Supplementary Data.....
9 Changes in and Disagreements With Accountants on Accounting and Financial Disclos
9A Controls and Procedures.....
9B Other Information.....

PART III

10 Directors, Executive Officers and Corporate Governance.....
11 Executive Compensation.....
12 Security Ownership of Certain Beneficial Owners and Management and Related Stockh
13 Certain Relationships and Related Transactions, and Director Independence.....
14 Principal Accounting Fees and Services.....

PART IV

15 Exhibits, Financial Statement Schedules.....
Signatures.....

PART I

ITEM 1. BUSINESS

OVERVIEW

We are a leading developer and manufacturer of batteries, capacitors, feedthroughs, enclosures, and other components used in implantable medical devices ("IMDs") through our Implantable Medical Components ("IMC") business. We offer technologically advanced, highly reliable and long lasting products and services for IMDs and enable our customers to introduce IMDs that are progressively smaller, longer lasting, more efficient and more functional. We also leverage our core competencies in technology and manufacturing through our Electrochem Commercial Power ("ECP") business to develop and produce cells and battery packs for commercial applications that demand high performance and reliability, including oil and gas exploration, pipeline inspection, telematics,

## Edgar Filing: GREATBATCH, INC. - Form 10-K

oceanographic equipment, seismic, communication, military and aerospace applications. 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.

In 2005, we expanded our business into value-added assembly of products that incorporate components. With this in mind, we designed and built a state of the art manufacturing facility in Tijuana Mexico, incorporating two class 100,000 clean rooms, one class 10,000 clean room, 90,000 square feet of manufacturing space, engineering, metrology and quality laboratories. This facility is led by a management team with diverse medical device and contract manufacturing backgrounds. We began operations at this facility in the 2nd quarter of 2005 and in 2006 obtained ISO 13485 certification.

Our company, a Delaware corporation, was incorporated in 1997 and since that time has completed the following acquisitions:

Acquisition date -----	Acquired company -----	Business at time of acquisition -----
July 10, 1997	Wilson Greatbatch Ltd. ("WGL")	Founded in 1970, the company designed and batteries for IMDs and commercial applica oil and gas, aerospace, and oceanographic
August 7, 1998	Hittman Materials and Medical Components, Inc. ("Hittman")	Founded in 1962, the company designed and ceramic and glass feedthroughs and special coatings for electrodes used in IMDs.
August 4, 2000	Battery Engineering, Inc. ("BEI")	Founded in 1983, the company designed and high-energy density batteries for industr military and medical applications.

4

Acquisition date -----	Acquired company -----	Business at time of acquisition -----
June 18, 2001	Sierra-KD Components division of Maxwell Technologies, Inc. ("Sierra")	Founded in 1986, the company designed and ceramic electromagnetic filtering capacit integrated them with wire feedthroughs fo Sierra also designed and manufactured cer for military, aerospace and commercial ap
July 9, 2002	Globe Tool and Manufacturing Company, Inc. ("Globe")	Founded in 1954, the company designed and precision enclosures used in IMDs and com used within the aerospace, electronic, an sectors.
March 16, 2004	NanoGram Devices Corporation ("NanoGram")	Founded in 1996, the company developed na for battery and medical device applicatio

FINANCIAL STATEMENT YEAR END

## Edgar Filing: GREATBATCH, INC. - Form 10-K

The Company utilizes a fifty-two, fifty-three week fiscal year ending on the Friday nearest December 31st. Fiscal years 2006, 2005 and 2004 ended on December 29, December 30 and December 31, respectively.

### SEGMENT INFORMATION

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 DEVICES

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.

5

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, 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:

- o Advances in medical technology - new therapies will allow physicians to use IMDs to treat a wider range of heart diseases.
- o New, more sophisticated implantable devices - device manufacturers are developing new CRM devices and adding new features to existing products.
- o 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.

## Edgar Filing: GREATBATCH, INC. - Form 10-K

- o Expansion of neurostimulator applications - therapies expected to expand as new therapeutic applications for pulse generators are identified.
- o An aging population - the number of people in the United States that are over age 65 is expected to double in the next 30 years.
- o New indications for other devices - there is an increased use of recently developed IMDs.
- o New performance requirements - government regulators are increasingly requiring that IMDs be protected from electro magnetic interference ("EMI").
- o Global markets - increased market penetration worldwide.

### COMMERCIAL BATTERY INDUSTRY

Commercial batteries are used in demanding applications such as oil and gas exploration, pipeline inspection, telematics, oceanography equipment, seismic, communication, military and aerospace. These applications use a variety of battery-powered systems including measurement-while drilling tools, pipeline inspection gauges, oceanography buoys, asset tracking devices, and hand-held military communication equipment. Commercial batteries are used with these systems because of extreme operating conditions. ECP commercial batteries are capable of operating reliably and safely at extremely high and low temperatures, as well as high shock and vibration.

The demand for commercial batteries is influenced by many factors. Oil and gas exploration is expected to increase as oil companies attempt to satisfy the escalating world demand for energy and natural gas. Pipeline inspection activity is increasing due to legislation and increasing awareness of aging pipelines and their impact on the economy and environment. More companies are likely to begin tracking their assets as wireless tracking devices become more mature.

6

### PRODUCTS

The following table provides information about our principal products:

#### IMPLANTABLE MEDICAL COMPONENTS:

The following implantable medical products are used in IMDs unless otherwise noted:

PRODUCT -----	DESCRIPTION -----	PRINCIPAL PRODUCT A -----
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 an Long service life Customized configur Light weight Compact and less in
Capacitors	Storage for energy generated by a battery before delivery to the heart.	Stores more energy (energy density) th

## Edgar Filing: GREATBATCH, INC. - Form 10-K

	Used in ICDs and CRT-Ds.	technologies Customized configur
EMI filters	Filters electromagnetic interference to limit undesirable response, malfunctioning or degradation in the performance of electronic equipment	High reliability at over wide frequency Customized design
Feedthroughs	Allow electrical signals to be brought from inside hermetically sealed IMD to an electrode	Ceramic to metal se more durable than t Multifunctional
Coated electrodes	Deliver electric signal from the feedthrough to a body part undergoing stimulation	High quality coated Flexible in utilizi of biocompatible co Customized offering
Precision components	- Machined - Molded and over molded products	High level of manuf Broad manufacturing
Enclosures and related components	- Titanium - Stainless steel	Precision manufactu configurations and
Value-added assemblies	Combination of multiple components in a single package/unit	Leveraging products provide subassembl Provides synergies technology and proc

### ELECTROCHEM COMMERCIAL POWER:

-----

The following commercial products are used in oil and gas exploration, military and oceanographic equipment:

PRODUCT -----	DESCRIPTION -----	PRINCIPAL PRODUCT A -----
Cells	- Moderate-rate  - Spiral (high rate)	Optimized rate capa vibration  High energy density
Battery packs	Bundling of commercial batteries in a customer specific configuration	Increased power cap of integration into applications

### 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.

## Edgar Filing: GREATBATCH, INC. - Form 10-K

In 2006, we announced a plan for consolidating our corporate and business unit organization structure. This included an elimination of approximately 40 associates. A significant portion of the annual savings from these reductions is planned to be reinvested into technology, sales and key corporate personnel. This planned organization change will enable us to more aggressively invest in our core product technologies and other business opportunities which will help drive our future growth.

### 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. As of December 29, 2006, we had 329 active U.S. patents and 248 active foreign patents. We also had 103 U.S. and 76 foreign pending patent applications at various stages of approval. During the past three years, we have received 101 new U.S. patents, of which 37 were received in 2006. 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 products 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 pursuant 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, which we license from another Company. We have also granted rights in our own patents to others under license agreements.

It is our policy to require our executive 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 our Company.

8

### MANUFACTURING AND QUALITY CONTROL

We primarily manufacture small lot sizes, as most customer orders range from a few hundred to thousands of 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 system is based upon an ISO documentation system and is driven by a master validation plan that requires rigorous testing and validation of all new processes or process changes that directly impact our products. Except for our Tijuana Mexico facility, all of our existing manufacturing plants are ISO 9001-2000 registered, which requires compliance with regulations regarding quality systems of product design (where applicable), supplier control,



## Edgar Filing: GREATBATCH, INC. - Form 10-K

manufacturing processes and management review. This certification can only be achieved after completion of an audit conducted by an independent authority.

In 2006, our Tijuana, Mexico facility completed the ISO 13485 audit process and received certification by the international standards organization. This gives us the ability to serve as a manufacturing partner to medical device manufacturers which we believe will improve our competitive position in both the CRM and emerging neurostimulation market. 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 opportunities.

Our existing manufacturing plants are audited by the National Standards Authority of Ireland, an independent auditing firm and notified body that specializes in evaluating quality standards. To maintain certification, all facilities must be reexamined routinely by this certifying 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 2006, approximately 51% of our products were sold in the United States. Sales to countries outside of the United States are primarily to customers whose corporate offices are located and headquartered in the United States. 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.

9

We sell our commercial cells and battery packs either 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, 2006 and 2005 were approximately \$76.6 million and \$92.2 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 2006, Boston Scientific, Medtronic and St. Jude Medical collectively accounted for 67% of our total sales, compared to 70% in 2005 and 2004. 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,

## Edgar Filing: GREATBATCH, INC. - Form 10-K

inventory management and selling prices. We continue to actively pursue our corporate strategy to diversify our customer base and market concentration through acquisitions. However, we are being extremely disciplined in our approach to ensure that we find an acquisition that meets our financial targets for growth and profitability.

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

We entered into an agreement with Boston Scientific in February 2005 pursuant to which Boston Scientific will purchase a minimum quantity of filtered feedthroughs at prices specified in the agreement. The period of the agreement is February 10, 2005 to December 31, 2007. Our previously disclosed agreements with Boston Scientific pursuant to which Boston Scientific purchased wet tantalum capacitors and batteries have expired. We are negotiating a follow-on agreement with targeted completion during the first quarter of 2007. Purchases and shipments of wet tantalum capacitors and batteries 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 January 1, 2005 extended the contract term to December 31, 2008 and added QHR high rate, QMR medium rate, and Nano battery technologies to the agreement. A contract amendment effective January 1, 2006 added molded header assemblies to the agreement. A contract amendment is currently being negotiated to extend 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.

10

### 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

## Edgar Filing: GREATBATCH, INC. - Form 10-K

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
Machined and molded components	Numerous
Value added assembly	Numerous

11

### 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 involve the controlled use of, and our products contain, 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 which 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 be subject to such environmental liabilities in the future as a result of historic or current operations.

As a component manufacturer, our medical products are not subject to regulation by the Food and Drug Administration ("FDA"). However, the FDA and related state

## Edgar Filing: GREATBATCH, INC. - Form 10-K

and foreign governmental agencies regulate many of our customers' products as medical devices. In many cases, the FDA must approve those products prior to commercialization. We believe that our existing medical manufacturing plants comply with current Good Manufacturing Practices as applicable.

We have five "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 United States.

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.

12

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 29, 2006:

Manufacturing	1,158
General and administrative	91
Sales and marketing	21
Research and development	77
Engineering	51
Tijuana, Mexico facility	437
	-----

## Edgar Filing: GREATBATCH, INC. - Form 10-K

Total

1,835  
=====

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 are primarily manufacturing in nature. We believe that we have a good relationship with our employees.

### 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](http://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.

13

They include statements relating to:

- o future sales, expenses and profitability;
- o the future development and expected growth of our business and the IMD industry;
- o our ability to execute our business model and our business strategy;
- o 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;
- o projected capital expenditures; and
- o 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

## Edgar Filing: GREATBATCH, INC. - Form 10-K

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 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.

14

#### 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 2006, 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

## Edgar Filing: GREATBATCH, INC. - Form 10-K

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 revenues and operating results will be negatively affected.

15

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 pricing 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 raw materials. 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 29, 2006, we had \$211.4 million of intangible assets, representing

## Edgar Filing: GREATBATCH, INC. - Form 10-K

39% of our total assets. These intangible assets consist primarily of goodwill, trademarks, tradenames 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 \$28.1 million of our net intangible assets at December 29, 2006, will continue to be amortized. We incurred total amortization expenses relating to these intangible assets of \$3.8 million in 2006. These expenses will reduce our future earnings or increase our future losses.

16

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 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



## Edgar Filing: GREATBATCH, INC. - Form 10-K

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.

17

We carry product liability insurance coverage that is limited in scope and amount. We may not be able to maintain this insurance or to do so at a reasonable cost or on reasonable terms. 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:

- o the fixed nature of a substantial percentage of our costs, which results in our operations being particularly sensitive to fluctuations in revenue;
- o 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;
- o timing of orders placed by our principal customers who account for a significant portion of our revenues; and
- o 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 29, 2006, we held 329 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

## Edgar Filing: GREATBATCH, INC. - Form 10-K

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.

18

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 batteries and other components for IMDs, 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 power sources and other components for IMDs, 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:

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

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

## Edgar Filing: GREATBATCH, INC. - Form 10-K

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.

21

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 49% of net sales for the year ended December 29, 2006, and our Tijuana, Mexico operations are subject to certain foreign country risks. Our international operations are, and will continue to be, subject to a number of risks and potential costs, including:

- o changes in foreign medical reimbursement programs and policies;
- o changes in foreign regulatory requirements;
- o local product preferences and product requirements;
- o longer-term receivables than are typical in the U.S.;
- o less protection of intellectual property in some countries outside of the U.S.;
- o trade protection measures and import and export licensing requirements;
- o work force instability;

## Edgar Filing: GREATBATCH, INC. - Form 10-K

- o political and economic instability; and
- o 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 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.

22

Our business is subject to environmental regulations that could be costly for our company 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

## Edgar Filing: GREATBATCH, INC. - Form 10-K

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.

Our healthcare 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 providers 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 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 commercial products to suffer.

23

### 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 29, 2006:

Edgar Filing: GREATBATCH, INC. - Form 10-K

Location -----	Sq. Ft. -----	Own/Lease -----	Principal Use -----
Alden, NY.....	125,000	Own	Medical battery and capacitor m
Clarence, NY.....	82,766	Own	Research, development and engin
Clarence, NY.....	20,800	Own	Machining and assembly of compo
Clarence, NY.....	18,550	Lease	Machining and assembly of compo
Clarence, NY.....	45,306	Lease	Executive offices and warehouse
Canton, MA.....	32,000	Own	Commercial battery manufacturin
Columbia, MD.....	30,000	Lease	Feedthrough and electrode manuf
Carson City, NV.....	23,840	Lease	EMI filtering manufacturing
Minneapolis, MN.....	72,000	Own	Enclosure manufacturing and eng
Tijuana, Mexico.....	144,000	Lease	Value-added assembly and EMI fi

We believe these facilities are suitable and adequate for our current business.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various legal actions arising in the normal course of business including actions brought by former employees who were terminated in connection with our consolidation initiatives. 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.

24

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

None.

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 on the NYSE Composite Tape:

2005 ----	High ----	Low -----
First Quarter	\$22.43	\$15.76
Second Quarter	25.19	17.30
Third Quarter	27.45	21.96
Fourth Quarter	30.40	24.03

Edgar Filing: GREATBATCH, INC. - Form 10-K

2006		
First Quarter	\$28.02	\$20.49
Second Quarter	24.92	19.10
Third Quarter	25.24	20.36
Fourth Quarter	27.78	21.40

As of February 26, 2007 there were 236 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 1,100 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 2006, the Company repurchased 7,626 shares from executives of the Company at an average cost of \$26.92 per share to satisfy minimum tax withholding requirements on vested restricted stock awards as allowed under the Company's 2002 Restricted Stock Plan. The price of these repurchases was based upon the closing market price of the Company's stock on the date of vesting.

25

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information regarding the Company's equity compensation plans as of December 29, 2006:

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	Weighted-average exercise price of outstanding options, warrants and rights; Weighted-average share price of restricted stock shares granted	Number of securities available under equity compensation plans (excluding restricted stock)
	( a )	( b )	
Equity compensation plans approved by security holders (1)	1,626,529	\$ 24.27	
Equity compensation plan approved by security holders (2)	204,156	\$ 23.32	
Equity compensation plans not approved by security holders	-	-	
Total	1,830,685	\$ 24.16	

(1) Consists of stock options that were issued under the Company's 1997 Stock Option Plan, 1998 Stock Option Plan, Non-Employee Director Stock Incentive Plan and the 2005 Stock Incentive Plan.

(2) Consists of shares of restricted stock granted pursuant to the Company's



## Edgar Filing: GREATBATCH, INC. - Form 10-K

2002 Restricted Stock Plan and 2005 Stock Incentive Plan.

### PERFORMANCE GRAPH

The following graph compares for the five year period ended December 29, 2006, 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 December 29, 2001 and assumes reinvestment of dividends. The stock price performance shown on the following graph is not necessarily indicative of future price performance:

	12/29/01	1/03/03	1/02/04	12/31/04	12/30/05	12/29/06
Greatbatch, Inc.	100	79	117	61	71	74
Hemscott Peer Group Index	100	91	118	138	148	150
S&P SmallCap 600 Index	100	85	118	145	156	180

[SEE SUPPLEMENTAL PDF]

26

### 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. 29, 2006	Dec. 30, 2005	Dec. 31, 2004 (2)
-----			
(in thousands, except per share data)			
Consolidated Statement of Operations Data:			
-----			
Sales	\$271,142	\$241,097	\$200,119
Income before income taxes	\$ 23,534 (4) (5)	\$ 15,464 (4)	\$ 23,732
Income per share			
Basic	\$ 0.74	\$ 0.47	\$ 0.67
Diluted	\$ 0.73 (3)	\$ 0.46 (3)	\$ 0.66
-----			
Consolidated Balance Sheet Data:			
-----			
Working capital	\$199,051	\$151,958	\$132,360
Total assets	\$547,827	\$512,911	\$476,166
Long-term obligations	\$205,859	\$200,261	\$193,948

## Edgar Filing: GREATBATCH, INC. - Form 10-K

- (1) In July 2002, we acquired the capital stock of Globe. These amounts include the results of operations of Globe subsequent to its acquisition.
- (2) In March 2004, we acquired the capital stock of NanoGram. These amounts include the results of operations of NanoGram subsequent to its acquisition.
- (3) 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. There was no impact on diluted earnings per share for 2006, 2005 and 2004. The impact on 2003 was a \$0.03 reduction in earnings per share from \$1.08 to \$1.05. Diluted earnings per share for 2003 are restated to reflect the adoption of EITF 04-08.
- (4) During 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.
- (5) 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 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 2006 was \$4.5 million, \$3.1 million net of tax or \$0.12 per diluted share.

27

### 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.

#### INDEX

##### Our Business

-----

- o Our business
- o Our customers
- o Our CEO's view

##### Cost Savings and Consolidation Efforts

-----

- o Severance
- o Alden facility consolidation
- o Carson City facility shutdown & Tijuana facility consolidation  
No. 1

## Edgar Filing: GREATBATCH, INC. - Form 10-K

- o Columbia facility and ARL shutdown, Tijuana facility consolidation No. 2 and RD&E consolidation

### Our Critical Accounting Estimates

-----

- o Inventories
- o Goodwill and other indefinite lived intangible assets
- o Stock-based compensation
- o Long-lived assets
- o Provision for income taxes

### Our Financial Results

-----

- o Results of operations table
- o Fiscal 2006 compared to fiscal 2005
- o Fiscal 2005 compared to fiscal 2004
- o Liquidity and capital resources
- o Off-balance sheet arrangements
- o Litigation
- o Contractual obligations
- o Inflation
- o Impact of recently issued accounting standards

### Our Business

-----

We are a leading developer and manufacturer of batteries, capacitors, feedthroughs, enclosures, and other components used in implantable medical devices ("IMDs") through our Implantable Medical Components ("IMC") segment. We offer technologically advanced, highly reliable and long lasting products for IMDs and enable our customers to introduce IMDs that are progressively smaller, longer lasting, more efficient and more functional. Additionally, in 2005, we expanded our business into value-added assembly of products that incorporate these components. With this in mind, we designed and built a state of the art manufacturing facility in Tijuana Mexico, incorporating two class 100,000 clean rooms, one class 10,000 clean room, 90,000 square feet of manufacturing space, engineering, metrology and quality laboratories. This facility is led by a management team with diverse medical device and contract manufacturing backgrounds. We also leverage our core competencies in technology and manufacturing through our Electrochem Commercial Power ("ECP") segment to develop and produce cells and battery packs for commercial applications that demand high performance and reliability, including oil and gas exploration, pipeline inspection, telematics, oceanographic equipment, seismic, communication, military and aerospace applications.

28

Most of the IMC products that we sell are utilized by customers in cardiac rhythm management ("CRM") devices. The CRM market comprises devices utilizing high-rate batteries and capacitors such as implantable cardioverter defibrillators ("ICDs") and cardiac resynchronization therapy with backup defibrillation devices ("CRT-D") and devices utilizing low or medium rate batteries but no capacitors (pacemakers and CRTs). All CRM devices utilize other components such as enclosures and feedthroughs, and certain CRM devices utilize electromagnetic interference ("EMI") filtering technology.

### Our Customers

-----

Our products are designed to provide reliable, long lasting solutions that meet

## Edgar Filing: GREATBATCH, INC. - Form 10-K

the evolving requirements and needs of our customers and the end users of their products. Our medical customers include leading IMD manufacturers such as Biotronik, Boston Scientific, Medtronic, the Sorin Group and St. Jude Medical. A substantial part of our business is conducted with a limited number of customers. In 2006, Boston Scientific, Medtronic and St. Jude Medical collectively accounted for approximately 67% of our total sales, compared to 70% in 2005 and 2004. The nature and extent of our selling relationships with each CRM 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.

We entered into an agreement with Boston Scientific in February 2005 pursuant to which Boston Scientific will purchase a minimum quantity of filtered feedthroughs at prices specified in the agreement. The period of the agreement is February 10, 2005 to December 31, 2007. Our previously disclosed agreements with Boston Scientific pursuant to which Boston Scientific purchased wet tantalum capacitors and batteries have expired. We are negotiating a follow-on agreement with targeted completion during the first quarter of 2007. Purchases and shipments of wet tantalum capacitors and batteries continue during contract negotiations.

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 our customers. For each of our products, we recognize revenue when the products are shipped and title passes.

### Our CEO's View

-----

2006 was another successful year for our Company. We experienced double-digit sales growth and achieved all of our financial goals--despite a down year in the ICD medical market and while realigning our management, business unit and manufacturing operations.

29

All of this was accomplished by maintaining our focus on producing the highest quality and most reliable products on the market. Additionally, we progressed our customer commitment and technological innovation to a new level. By continuing to implement our strategic plan, which includes both efficiency improvements and organic growth, in 2006 we drove sales growth and positioned ourselves for even more success ahead.

In 2006, overall sales were up 12% and net income increased 60% from the prior year. Specifically, our IMC sales were up 9%, primarily due to strong sales of new assembly products and continued growth in feedthrough, coated electrodes and molded components. In the commercial market, our ECP sales increased by 32% from the prior year. Several factors contributed to this growth including investment in sales and marketing, expansion into new emerging markets such as telematics, and investment in engineering.

During 2006 we also facilitated a transition in our management team, which included my appointment to Chief Executive Officer. In each of their respective roles, our management team has been finding new ways to proactively invest in competitive advantages for our customers. We are making significant advances in technological progress and service to our customers, and continually re-proving our distinctive value proposition. The diversity, flexibility and experience of our management team will be leveraged as the Company continues to grow.

In 2006, we exploited our technical development expertise to deliver new,

## Edgar Filing: GREATBATCH, INC. - Form 10-K

innovative products into the market. For example, we believe our new "Q" battery series is the most powerful and versatile high-rate implantable battery portfolio to hit the cardiac rhythm management (CRM) market in many years--and for many years ahead. I am pleased to report that we have already begun manufacturing our Q battery series to customer specifications.

The ECP business unit significantly ramped up the manufacture of specialized cells and battery packs to meet customer demand in 2006. The performance, long life and high reliability of Electrochem products make them ideally suited for extreme applications. We expect to continue to optimize and expand our ECP business. A long-term facility expansion program is currently underway, which should enable us to continue delivering the outstanding products and service that our customers have come to expect from Electrochem.

Over the past year, we also continued to build our presence in emerging markets, including components of neuromodulation devices that deliver a wide range of neurostimulation and drug-delivery therapies, MRI-safe solutions that may revolutionize patient screening options, and to enable value-added features and functionalities.

In operations, we've made substantial progress in our second of three years of integration and realignment activity that we believe will ultimately permit us to realize our expected annual savings of \$10 million per year. We intend to invest these savings in additional R&D staff and proprietary technologies, and to pursue and integrate new, complementary businesses and markets.

We launched the move of our manufacturing operations from our Columbia, Maryland facility to our new state-of-the-art facility in Tijuana, Mexico. The final closure of our Carson City, Nevada facility was delayed to accommodate a pending customer regulatory approval.

30

In the meantime, our Tijuana, Mexico medical development and manufacturing facility has attained ISO 13485 certification, the internationally recognized quality standard. Both the Alden and Tijuana facilities are designed specifically to offer our customers' world-class medical device manufacturing and assembly, and thus moving us further up our customers' supply-chain.

At the close of 2006, we retained an independent firm to conduct a corporate customer satisfaction survey and heard from 30 of our accounts. Greatbatch product quality, performance, and reliability were rated very high. Because of the critical nature of customer product applications, we are pleased to know that our contributions are so strong. The value of our technology-enabling designs and custom-engineering capabilities were also rated very high. We remain fully dedicated to ongoing partnerships that produce custom device solutions, from individual components to tailored assembly and sub-assembly.

This survey also noted areas for improvement in our customer service. While our first priority is always to maintain product excellence, we do need to make it easier for customers to do business with us. We already have begun to take action to simplify points of contact, streamline our quotation process, and identify ways to speed design and development without sacrificing quality.

Our goal is to deliver the highest-quality, most-reliable products in the market, in an efficient, customer-focused manner. With the majority of surveyed customers indicating they are satisfied with us, we believe we are well on our way to achieving nearly 100% customer satisfaction.

As I look ahead to 2007, our major focus will continue to be directed to the following objectives:

## Edgar Filing: GREATBATCH, INC. - Form 10-K

1. Completion of the plant consolidation initiatives at Carson City and Columbia and to exit 2007 with a cumulative annual savings run rate of \$10 million;
2. Execute our ECP plant expansion plan;
3. Streamline, optimize and expand current product offerings, operations and business processes;
4. Introduce next generation implantable batteries, capacitors and coatings;
5. Expand our rechargeable battery portfolio in both medical and commercial markets;
6. Further penetrate the neurostimulation market;
7. Develop components that enable patients to receive MRI scans without complications; and
8. Maintain an active business development pipeline and evaluate and pursue compelling new business opportunities.

We have an ambitious strategic agenda for 2007. I believe the leadership team is in place that will enable the Company to achieve these objectives.

### Cost Savings and Consolidation Efforts

-----

During 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 at Item 8 of this report.

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 \$2.5 million were recorded in the fourth quarter of 2006. Expense of \$1.5 million was recorded in our IMC segment, \$0.03 million in the ECP segment and \$1.0 million was recorded in unallocated operating expenses. Accrued severance related to this consolidation plan was \$1.8 million as of December 29, 2006.

31

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.

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. Of these, \$2.6 million were paid in cash and \$0.8 million were for assets written-off.

Carson City Facility Shutdown and Tijuana Facility Consolidation No. 1. On March 7, 2005, we announced our intent to close our Carson City, NV facility ("Carson City facility") and consolidate the work performed at that facility into our Tijuana, Mexico facility ("Tijuana facility consolidation No. 1").

## Edgar Filing: GREATBATCH, INC. - Form 10-K

We have delayed the anticipated final closing of the Carson City Facility until the second quarter of 2007 in order to accommodate a customer's pending regulatory approval. If this regulatory approval is delayed further, additional costs could be incurred. The total revised estimate for this plan is anticipated to be between \$7.4 million and \$7.6 million, of which \$7.2 million has been incurred through December 29, 2006. All categories of costs are considered to be cash expenditures, except for \$0.6 million of accelerated depreciation.

Once the moves are completed, 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 will be relocated to our Technology Center in Clarence, NY.

The total estimated cost for this facility consolidation plan is anticipated to be between \$7.9 million and \$8.3 million of which \$6.3million has been incurred through December 29, 2006. 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 two fiscal quarters through June 2007. 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, the Company anticipates 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.

32

### 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:

- o It requires assumptions to be made that were uncertain at the time the estimate was made; and
- o 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.

Edgar Filing: GREATBATCH, INC. - Form 10-K

Balance Sheet Caption / Nature of Critical Estimate Item	Assumptions / Approach Used	Effect
<p>Goodwill and other indefinite lived intangible assets</p> <p>Goodwill is initially recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. 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. These assets are subject to estimation risks related to the purchase price allocation conducted at acquisition.</p>	<p>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 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 goodwill are determined based primarily on discounted cash flows, however where appropriate, market multiples or appraised values are also used. Indefinite lived intangible assets such as trademarks and tradenames are evaluated for impairment by using the income approach. This method is used to estimate the value of intangibles by considering the present worth of the stream of future benefits accruing to the owner of these assets. These future benefits are quantified by assuming a "Relief from Royalty." The concept underlying this method is that the user realizes an enhanced earnings capacity from ownership of the intangible asset equal to the royalty they would have to pay a third party for use of the name.</p>	<p>We make that af expecte reporti assumpt capital future these e create reporti</p> <p>For ind tradema estimat rates a to us. estimat of thes assets.</p>

33

Balance Sheet Caption / Nature of Critical Estimate Item	Assumptions / Approach Used	Effect
<p>Stock-based compensation</p> <p>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</p>	<p>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 in prior years. We are 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 our stock over the most recent period commensurate with the estimated expected life of the stock options.</p>	<p>Option use in options and are share-b signifi freely in the materia values, provide values Consequ</p>



Edgar Filing: GREATBATCH, INC. - Form 10-K

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 basis over the vesting period.

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 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 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 our history and expectation of dividend payouts. The risk-free 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.

estimat  
share-b  
little  
realize  
forfeit  
in the  
worthle  
intrinsic  
values  
date an  
consolid  
Alternat  
these i  
excess  
estimat  
in our  
stateme  
differe  
may res  
other c  
methods  
possibi  
valuati  
result  
periods  
value e  
  
There i  
involve  
forfeit  
and res  
applica  
periods  
future  
from wh  
period.  
perform  
who hav  
awards  
perform  
could m  
stock-b  
recogni

Balance Sheet Caption / Nature of Critical Estimate Item	Assumptions / Approach Used	Effect
<p>Inventories</p> <p>Inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.</p>	<p>Inventory standard costing requires complex calculations that include assumptions for overhead absorption, scrap, sample calculations, manufacturing yield estimates and the determination of which costs are capitalizable. The valuation of inventory requires us to estimate obsolete or excess</p>	<p>Variati have a our dem is grea to redu accordi record</p>

Edgar Filing: GREATBATCH, INC. - Form 10-K

	inventory as well as inventory that is not of saleable quality.	which w net inc
<p>Long-lived assets</p> <p>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.</p>	<p>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.</p>	<p>Estimat that ar managem includi materia assumpt Unfores technol assumpt realize operati of depr both cu we make and oth must ma the rem primari buildin</p>

Balance Sheet Caption / Nature of Critical Estimate Item	Assumptions / Approach Used	Effec
<p>Provision for income taxes</p> <p>In accordance with the liability method of accounting for income taxes specified in Statement of Financial Accounting Standards 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</p>	<p>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.</p>	<p>Changes affect regardi current affect assets the inc signifi could m value o 29, 200 tax ass valuati against tax ass effecti current reducin</p>

## Edgar Filing: GREATBATCH, INC. - Form 10-K

effect when the differences reverse.

Beginning in 2007, we adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109, to assess and record income tax uncertainties. The adoption of this interpretation did not have a material impact on our financial statements.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional income taxes will be due. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We record an additional charge in our provision for income taxes in the period in which we determine that the recorded tax liability under the criteria established by Statement of Financial Accounting Standard No. 5, Accounting for Contingencies is less than we expect the ultimate assessment to be.

by \$0.0  
December

36

### 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 2006, 2005 and 2004 ended on December 29, December 30 and December 31, respectively.

### Results of Operations Table

Dollars in thousands, except per share data	Year ended			2006-2005	
	Dec. 29, 2006	Dec. 30, 2005	Dec. 31, 2004	\$ Change	% Change
<b>IMC</b>					
ICD batteries	\$ 45,140	\$ 45,803	\$ 35,742	\$ (663)	-1
Pacemaker and other batteries	21,090	21,708	19,434	(618)	-3
ICD capacitors	16,780	20,709	21,981	(3,929)	-19
Feedthroughs	64,578	59,210	47,387	5,368	9
Enclosures	23,904	23,866	21,709	38	0
Other	55,915	36,618	26,402	19,297	53
<b>Total IMC</b>	<b>227,407</b>	<b>207,914</b>	<b>172,655</b>	<b>19,493</b>	<b>9</b>
<b>ECP</b>	<b>43,735</b>	<b>33,183</b>	<b>27,464</b>	<b>10,552</b>	<b>32</b>
<b>Total sales</b>	<b>271,142</b>	<b>241,097</b>	<b>200,119</b>	<b>30,045</b>	<b>12</b>
Cost of sales - excluding amortization of intangible assets	164,885	151,543	119,397	13,342	9
Cost of sales - amortization of intangible assets	3,813	3,841	4,002	(28)	-1
<b>Total cost of sales</b>	<b>168,698</b>	<b>155,384</b>	<b>123,399</b>	<b>13,314</b>	<b>9</b>

Edgar Filing: GREATBATCH, INC. - Form 10-K

Cost of sales as a % of sales	62.2%	64.4%	61.7%		-2.2
Selling, general, and administrative expenses	38,785	31,528	26,719	7,257	23
SG&A as a % of sales	14.3%	13.1%	13.4%		1.2
Research, development and engineering costs, net	24,225	18,725	18,476	5,500	29
RD&E as a % of sales	8.9%	7.8%	9.2%		1.1
Other operating expense	17,058	18,574	4,585	(1,516)	-8
Operating income	22,376	16,886	26,940	5,490	33
Operating margin	8.3%	7.0%	13.5%		1.3
Interest expense	4,605	4,613	4,535	(8)	0
Interest income	(5,775)	(3,113)	(1,235)	(2,662)	86
Other (income) expense, net	12	(78)	(92)	90	-115
Provision for income taxes	7,408	5,357	9,514	2,051	38
Effective tax rate	31.5%	34.6%	40.1%		-3.1
Net income	\$ 16,126	\$ 10,107	\$ 14,218	\$ 6,019	60
Net margin	5.9%	4.2%	7.1%		1.7
Diluted earnings per share	\$ 0.73	\$ 0.46	\$ 0.66	\$ 0.27	59

37

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. The nature and extent of our selling relationship with each CRM customer is different in terms of component 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 CRM 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 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. We believe these products will continue to represent a

## Edgar Filing: GREATBATCH, INC. - Form 10-K

near term growth opportunity for the Company as we continue to penetrate the market and bring new technology to our customers.

Our ICD battery product line declined by 1% during 2006, commensurate with the market and the market share shifts amongst 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. We expect pricing pressure from our larger customers to continue in the future.

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. We believe the impact on our financial results of this customer's actions stabilized in 2006. The capacitor product line represents a significant growth opportunity and we continue to invest in advancing our technology to best position our product in the marketplace.

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.

38

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 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 emerging telematics market has provided incremental sales opportunities.

### 2007 Sales Outlook

We expect both IMC and ECP sales to increase by approximately 10% next year, resulting in a full year sales range of \$295 million to \$305 million. We have assumed an underlying medical market growth rate of 5% for next year. The forecasted increase of 10% or nearly twice the growth of the underlying market reflects our confidence that we will continue to increase our market share with our existing customer base and penetrate new customer opportunities.

### Cost of Sales

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

	Year Ended December 29, 2006 -----
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% =====

## Edgar Filing: GREATBATCH, INC. - Form 10-K

- 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. In accordance with our inventory accounting policy, excess capacity costs were expensed in 2005.
- 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. In accordance with our inventory accounting policy, excess capacity costs were expensed.
- d. The revenue increase from 2005 was primarily in other IMC sales, which generally have lower margins.

We expect cost of sales as a percentage of sales to decrease over the next several years. This is a result of our consolidation efforts and the elimination of excess capacity, partially offset by a continuing shift in product mix towards lower margin products. Excess capacity for the Tijuana facility is not expected to be eliminated until mid-2007 when the last announced consolidation effort is anticipated to be completed (see the "Cost Savings and Consolidation Efforts" section of this Item for additional information).

39

### 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):

	Year Ended 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. The increase in stock-based compensation expense is expected to continue into the future as additional stock-based awards are made.
- 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

## Edgar Filing: GREATBATCH, INC. - Form 10-K

- 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. The increase in information technology expense is expected to continue into the future as the Company continues to grow.
  - d. The increased workforce expense was primarily a result of the Company's efforts to increase the marketing and sales of its 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.

SG&A expenses are expected to decrease in 2007 by approximately 3% from 2006 levels. We expect the savings from our realignment plan announced in November to partially offset any planned new hires or inflationary increases.

40

### 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. Reimbursements for achieving certain development milestones are netted against gross spending.

In 2007 RD&E expenses are expected to be approximately 9% to 10% of sales, reflecting our continued development of and investment in core product technologies.

### Other Operating Expenses

Other operating expenses are as follows (in millions):

Edgar Filing: GREATBATCH, INC. - Form 10-K

	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
	<u>\$ 17.1</u>	<u>\$ 18.6</u>

(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 29, 2006.

41

- (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, 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 \$1.0 million of 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.

Prior year amounts have been conformed to the current year presentation.

In 2007 plant relocation and asset disposition expenses are expected to be approximately \$2.6 million to \$3.4 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



## Edgar Filing: GREATBATCH, INC. - Form 10-K

to 34.6% in 2005.

We expect our effective tax rate to be approximately 34% to 35% in 2007.

Fiscal 2005 Compared with Fiscal 2004

### Sales

IMC. The 2005 results include the benefit of market place customer field actions surrounding ICD products. We estimate that the favorable benefit of marketplace field actions was approximately \$10.0 million to \$15.0 million in 2005.

Moving beyond the field actions, the increase in demand was not isolated to any one customer. We saw strength across all of our products and our entire customer base.

42

The increase in IMC sales of 20% for 2005 was primarily due to increased demand for ICD batteries, filtered feedthroughs, coated components and medical enclosures offset by an average 2% reduction in selling prices.

ECP. The ECP sales increase of 21% for 2005 was driven by the following factors: First, an expanded commercial sales force. We aggressively pursued new business opportunities and were successful on many of these fronts.

Second, we significantly reduced our manufacturing lead times at our Canton, Massachusetts facility, which allowed us to be more responsive to our customers' needs. Reduced lead times allowed us to win customer orders that would normally have gone to other suppliers.

The third factor that contributed to our positive commercial results was favorable market dynamics. The oil and gas exploration market was robust due to the increased demand for products used in pipeline inspections, pressure monitoring and measurement while drilling applications. In addition, we saw an increase in demand for power sources used in wave monitoring and seismic recording, due to increased Tsunami related concerns, mainly in the international markets.

### Cost of Sales

The 2005 impact on cost of sales as a percentage of sales was primarily due to the following factors:

Production efficiencies primarily associated with higher volumes (a)  
Excess capacity at wet tantalum capacitor and Tijuana facilities (b)  
Lower IMC selling prices (c)  
Profit sharing accruals and incentive compensation (d)  
Warranty (e)  
Other

Total percentage point impact on cost of sales as a percentage of sales

Ye  
Dec

-----

-----

=====

## Edgar Filing: GREATBATCH, INC. - Form 10-K

- 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.
- b. During 2005, two facilities were not being utilized to their full capacity. The capacitor facility was initially established to handle higher levels of production quantities. The Tijuana facility was new for 2005 and as a result its floor space and infrastructure were under utilized. See the "cost savings and consolidation" section of this Item for additional information.
- c. Sales prices for IMC products are subject to pricing agreements with customers. Many times these agreements allow for changes in price due to customer specific levels of demand.
- d. Based on several metrics, 2005's profit sharing and incentive calculations were higher than in 2004.
- e. We incurred incremental warranty costs in 2005 to settle customer claims related to the IMC segment.

43

### SG&A Expenses

The increase in SG&A expenses for 2005 was primarily due to the following factors (in millions):

	Year ended December 30, 2005
	-----
Higher incentive compensation	\$ 3.4
Increase in sales and marketing workforce	1.0
Depreciation related to ERP system partially installed in 2004	1.5
Costs associated with Sarbanes-Oxley compliance	(0.5)
Other, including costs associated with the new Tijuana Facility	(0.6)
	-----
Net increase in SG&A	\$ 4.8
	=====

### RD&E Expenses

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

	Year ended	
	December 30, 2005	December 31, 2004
	-----	-----
Research and development costs	\$ 17.1	\$ 15.8
	-----	-----
Engineering costs	5.5	6.7
Less cost reimbursements	(3.9)	(4.0)
	-----	-----
Engineering costs, net	1.6	2.7
	-----	-----

Edgar Filing: GREATBATCH, INC. - Form 10-K

Total research and development and engineering costs, net \$ 18.7 \$ 18.5  
=====

Gross RD&E spending was slightly higher in 2005 compared to 2004. Expenses increased during 2005 due to increased staffing in RD&E to support increased research initiatives for IMC. These expenses were offset by the QHR battery product line moving from the development stage into production (\$1.3 million). The gross costs in each year were offset by repayments for development efforts for projects where the Company is reimbursed for achieving certain development milestones. These reimbursements were 4% lower in 2005 compared to 2004, resulting in the increase in net expense.

44

Other Operating Expenses

Other operating expenses for 2005 and 2004 comprised the following costs (in millions):

	Year ended	
	December 30, 2005	December 2004
Carson City facility shutdown (a)	\$ 4.5	\$
Alden facility consolidation (a)	2.8	
Tijuana facility start-up (a)	1.4	
Severance (a)	1.5	
Columbia Facility and ARL shutdown (a)	1.1	
Costs to exit development agreement (b)	1.2	
Asset dispositions and other (c)	6.1	
Patent acquisition (d)	-	
	\$ 18.6	\$

- a. Refer to "Cost Savings and Consolidation Efforts" portion of this Item for disclosure related to the timing and level of remaining expenditures for these items as of December 30, 2005. In 2004, the severance charge was from a 7% mid-year reduction in workforce.
- b. The \$1.2 million charge was recorded in other operating expenses during the second quarter of 2005 for charges associated with the discontinuation of a drug pump development agreement, which was transferred back to the customer for further development.
- c. This caption includes a \$2.8 million write-down of automated cathode assembly equipment in 2005. This charge was primarily related to a decision not to continue to use some battery production equipment. The manufacturing process related to this equipment did not match our overall manufacturing strategy. Remaining expenditures in 2005 and 2004 were primarily for asset disposals of approximately \$3.3 million and \$0.9 million, respectively.
- d. The charge is associated with patents acquired in the second quarter of 2004. These patents cover how capacitors are used in an ICD. Although management believes the patents could have been successfully challenged in court proceedings, a decision was made to acquire the patents and remove this as a potential obstacle for existing customers to more fully adopt wet tantalum technology and for potential customers to initially adopt the

## Edgar Filing: GREATBATCH, INC. - Form 10-K

technology.

2005 amounts have been conformed to the current year presentation.

### Interest Expense and Interest Income

Interest expense in 2005 was consistent with 2004, and was primarily related to the contingent convertible notes. Interest income increased during 2005 in comparison to 2004 due to higher interest rates on higher cash and short-term investment balances.

45

### Provision for Income Taxes

Our effective tax rate is below the United States statutory rate primarily as a result of federal research and development tax credits and the allowable ETI for 2005. The effective tax rate in 2004 was higher than in 2005 primarily due to the recognition of a valuation allowance against state investment tax credits that were no longer deemed more likely than not to be realized.

### Liquidity and Capital Resources

(Dollars in millions)	December 29, 2006	As of	December 2005
	-----		-----
Cash and cash equivalents and short-term investments (a)	\$ 142.6	\$	1
Working capital(b)	\$ 199.1	\$	1
Current ratio	5.7:1.0		4.5

- a. Short-term investments consist of securities acquired with maturities that exceed three months and are less than one year at the time of acquisition, equity securities classified as available-for-sale, and auction rate securities.
- b. Working capital increased by approximately \$47.1 million. Net cash provided by operating activities of \$39.2 million and \$3.6 million, net of tax, of unrealized gains on short-term investments available for sale during the period are the primary drivers behind this increase.

We maintain a three-year \$50.0 million revolving credit facility (the "Revolver"), which contains a \$10.0 million sub-limit for the issuance of commercial or standby letters of credit. The Revolver is secured by our non-realty assets including cash, accounts and notes receivable, and inventories and has an expiration date of May 31, 2008. The Revolver requires us to comply with two quarterly financial covenants, as defined. The first relates to the ratio of consolidated net earnings or loss before interest, taxes, depreciation, and amortization ("EBITDA") to fixed charges. The second is a leverage ratio, which is calculated based on the ratio of consolidated funded debt less cash, cash equivalent investments and short-term investments to consolidated EBITDA. Interest rates under the Revolver vary with our leverage. We are required to pay a commitment fee of between 0.125% and 0.250% per annum on the unused portion of the Revolver based on our leverage. As of December 29, 2006, we had no balance outstanding on the Revolver.

Our principal sources of liquidity are our operating cash flow combined with our working capital of \$199.1 million at December 29, 2006 and availability under

## Edgar Filing: GREATBATCH, INC. - Form 10-K

our Revolver. Historically we have generated cash from operations sufficient to meet our capital expenditure and debt service needs, other than for acquisitions. At December 29, 2006, our current ratio was 5.7:1.0.

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.

Given the significant growth in our ECP business, we will be initiating a facility and equipment expansion project in 2007. This investment in a new facility will enable us to maintain and grow existing business while capturing new growth opportunities. The expected completion of this \$28 million expansion project is early 2008. Sufficient capacity is currently in place to meet our planned growth objectives in 2007.

46

### Operating Activities

In total, net cash flows provided by operating activities for 2006 decreased by \$4.1 million from 2005. Net income increased by \$6.0 million while the adjustments to reconcile net cash provided by operating activities decreased by \$10.1 million. Increased inventories in 2006 were primarily due to increased sales and the replenishment of safety stocks. Cash flow from accrued expenses declined as a result of a higher level of incentive compensation in 2005 and 2006 compared to 2004. Stock-based compensation expense increased primarily due to the adoption of SFAS No. 123(R) in 2006.

### Investing Activities

Cash used in investing activities decreased \$15.0 million from 2005. The 2005 amounts include a higher level of capital expenditures (\$28.2 million in 2005 compared to \$15.4 million in 2006), primarily from the construction of the medical power manufacturing plant in Alden, NY and the new assembly plant in Tijuana, Mexico which were completed in the first half of 2006 and 2005, respectively. These cash outflows were partially offset by cash proceeds of \$5.2 million related to the sale of our Amherst, NY and Carson City, NV real estate in 2005.

In March 2004, we purchased NanoGram for approximately \$45.7 million (subsequently renamed as Greatbatch Technologies Advanced Research Laboratories, Inc.). The most significant elements of the purchase price allocation were to patented and unpatented technology and goodwill.

Net short-term investments increased by approximately \$5.7 million from 2005 to 2006. We intend to be able to use the majority of our short-term investments for short-term cash needs, as their current maturities are primarily less than three months.

### Financing Activities

Payments on capital lease obligations and shares issued in connection with the exercise of stock options and other stock-based awards are the primary financing activities for 2006 and 2005.

### Capital Structure

At December 29, 2006, our capital structure consisted of \$170.0 million of convertible subordinated notes and our 22.1 million shares of common stock outstanding. We have \$142.6 million in cash, cash equivalents and short-term

Edgar Filing: GREATBATCH, INC. - Form 10-K

investments and are in a position to facilitate future acquisitions if necessary. We are also authorized to issue 100 million shares of common stock and 100 million shares of preferred stock. 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. Our current expectation for 2007 is that capital spending will be in the range of \$35.0 million to \$45.0 million, of which approximately \$20.0 million (\$28.0 million in total between 2007 and 2008) is attributable to the expansion of our manufacturing capacity and capabilities for our ECP business. The remainder will be used for the completion of our consolidation initiatives as well as manufacturing improvements and normal maintenance capital.

47

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 including actions brought by former employees who were terminated in connection with our consolidation initiatives. 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. We have meritorious defenses and are vigorously defending the matter. The potential risk of loss is between \$0.0 and \$1.7 million.

Contractual Obligations

The following table summarizes our significant contractual obligations at December 29, 2006, and the effect such obligations are expected to have on our liquidity and cash flows in future periods.

		Payments due	
	Total	Less than 1 year	1 year or more
CONTRACTUAL OBLIGATIONS			
Long-Term Debt Obligations (a)	\$194,863	\$ 3,825	\$7
Operating Lease Obligations (b)	8,103	1,906	2
Purchase Obligations (c)	9,684	9,684	
Total	\$212,650	\$15,415	\$9

## Edgar Filing: GREATBATCH, INC. - Form 10-K

- a. The annual interest expense on the convertible debentures is 2.25%, or \$3.8 million which is paid semi-annually. These amounts assume the 2010 conversion feature is not exercised. 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.

48

### Inflation

We do not believe that inflation has had a significant effect on our operations.

### Impact of Recently Issued Accounting Standards

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("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. We are still evaluating the impact of SFAS No. 159 on our financial statements, which is effective beginning in fiscal year 2008.

In October 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). This Statement requires companies to recognize the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability in the statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS No. 158 was effective for us as of December 29, 2006 and did not have a material impact on our financial statements, as we currently do not maintain any benefit plans that fall within the scope of SFAS No. 158.

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. We are still evaluating the impact of SFAS No. 157 on our financial statements, which is effective beginning in fiscal year 2008.

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") No. 108,

## Edgar Filing: GREATBATCH, INC. - Form 10-K

Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB No. 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of determining whether the current year's financial statements are materially misstated. SAB No. 108 was effective for us in fiscal year 2006 and did not have a material impact on our financial statements.

In June 2006, the FASB issued FASB Interpretation No. ("FIN") 48, Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized under SFAS No. 109, Accounting for Income Taxes. FIN 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. FIN 48 was effective beginning in fiscal year 2007 and did not have a material effect on our consolidated financial position, consolidated results of operations, or liquidity.

49

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of Accounting Research Bulletin ("ARB") No. 43, Chapter 4. SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, handling costs and wasted material (spoilage). Among other provisions, the new rule requires that such items be recognized as current-period charges, regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. SFAS No. 151 was effective beginning in fiscal year 2006 and did not have a material effect on our consolidated financial position, consolidated results of operations, or liquidity.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Under our line of credit any borrowings bear interest at fluctuating market rates. At December 29, 2006, 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.

We incur certain expenses related to our Mexican operations that are denominated in a foreign currency. We do not believe that the impact of foreign currency fluctuations will have a material effect on our consolidated financial statements.

### 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 29, 2006 and December 30, 2005.

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



Edgar Filing: GREATBATCH, INC. - Form 10-K

December 31, 2004.

Consolidated Statements of Cash Flows for the years ended December 29, 2006, December 30, 2005 and December 31, 2004.

Consolidated Statements of Stockholders' Equity for the years ended December 29, 2006, December 30, 2005 and December 31, 2004.

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 29, 2006, 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 29, 2006 is effective.

Management's assessment of the effectiveness of internal control over financial reporting as of December 29, 2006 has been audited by Deloitte & Touche LLP, the Company's independent registered public accounting firm, whose unqualified opinion on management's assessment of the effectiveness of internal control over financial reporting as of December 29, 2006 is expressed in their report included herein.

Dated: February 26, 2007

/s/ Thomas J. Hook  
-----  
Thomas J. Hook  
President & Chief Executive Officer

/s/ Thomas J. Mazza  
-----  
Thomas J. Mazza  
Senior Vice President &  
Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Greatbatch, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 29, 2006, based on criteria

## Edgar Filing: GREATBATCH, INC. - Form 10-K

established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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, management's assessment that the Company maintained effective internal control over financial reporting as of December 29, 2006, is fairly stated, in all material respects, based on the criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2006, 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 consolidated financial statement schedule as of and for the year ended December 29, 2006 of the Company and our report dated February 26, 2007,

## Edgar Filing: GREATBATCH, INC. - Form 10-K

expressed an unqualified opinion on those financial statements and financial statement schedule and included an explanatory paragraph relating to a change in the Company's method of accounting for stock-based compensation on January 1, 2006, to conform to Statement of Financial Accounting Standard No. 123 (revised 2004), Share-Based Payment.

/s/ Deloitte & Touche LLP

Buffalo, New York  
February 26, 2007

53

### 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 29, 2006 and December 30, 2005, 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 29, 2006. 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 29, 2006 and December 30, 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 29, 2006, 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 2 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 effectiveness of the Company's internal control over financial reporting as of December 29, 2006, 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, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial

Edgar Filing: GREATBATCH, INC. - Form 10-K

reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Buffalo, New York  
February 26, 2007

54

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

	December 29, 2006	December 2005
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 71,147	\$ 46,
Short-term investments available for sale	71,416	65,
Accounts receivable, net of allowance of \$532 in 2006 and \$450 in 2005	31,285	29,
Inventories	57,667	45,
Refundable income taxes	1,569	
Deferred income taxes	5,899	6,
Prepaid expenses and other current assets	2,343	1,
Total current assets	241,326	196,
Property, plant, and equipment, net	91,869	97,
Amortizing intangible assets, net	28,078	31,
Trademarks and tradenames	28,252	28,
Goodwill	155,039	155,
Other assets	3,263	4,
Total assets	\$ 547,827	\$ 512,
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 12,657	\$ 13,
Accrued expenses and other current liabilities	29,618	29,
Current portion of long-term debt	-	
Total current liabilities	42,275	44,
Convertible subordinated notes	170,000	170,
Deferred income taxes	35,859	30,
Total liabilities	248,134	244,
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, authorized 100,000,000 shares; no shares issued or outstanding in 2006 or 2005		
Common stock, \$0.001 par value, authorized 100,000,000 shares; 22,119,142 shares issued and 22,111,516 shares outstanding in 2006 and 21,752,090 shares issued and outstanding in 2005	22	217,
Additional paid-in capital	227,187	

Edgar Filing: GREATBATCH, INC. - Form 10-K

Deferred stock-based compensation	-	(1,
Treasury stock, at cost, 7,626 shares in 2006 and no shares in 2005	(205)	
Retained earnings	69,165	53,
Accumulated other comprehensive income (loss)	3,524	
	-----	-----
Total stockholders' equity	299,693	268,
	-----	-----
Total liabilities and stockholders' equity	\$ 547,827	\$ 512,
	=====	=====

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

55

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

	Year Ended	
	December 29, 2006	December 30, 2005
	-----	-----
Sales	\$ 271,142	\$ 241,097
Costs and expenses:		
Cost of sales - excluding amortization of intangible assets	164,885	151,543
Cost of sales - amortization of intangible assets	3,813	3,841
Selling, general and administrative expenses	38,785	31,528
Research, development and engineering costs, net	24,225	18,725
Other operating expenses, net	17,058	18,574
	-----	-----
Operating income	22,376	16,886
Interest expense	4,605	4,613
Interest income	(5,775)	(3,113)
Other (income) expense, net	12	(78)
	-----	-----
Income before provision for income taxes	23,534	15,464
Provision for income taxes	7,408	5,357
	-----	-----
Net income	\$ 16,126	\$ 10,107
	=====	=====
Earnings per share:		
Basic	\$ 0.74	\$ 0.47
Diluted	\$ 0.73	\$ 0.46
Weighted average shares outstanding:		
Basic	21,803	21,582
Diluted	26,334	21,810
Comprehensive income:		
Net income	\$ 16,126	\$ 10,107
Net unrealized gain (loss) on short-term		

Edgar Filing: GREATBATCH, INC. - Form 10-K

investments available for sale, net of tax	3,594	(52)
Comprehensive income	\$ 19,720	\$ 10,055

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

56

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

	Year Ended	
	December 29, 2006	December 30, 2005
Cash flows from operating activities:		
Net income	\$ 16,126	\$ 10,107
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,309	19,718
Stock-based compensation	9,717	3,327
Deferred income taxes	4,888	4,330
Loss on disposal of assets	5,379	5,851
Changes in operating assets and liabilities:		
Accounts receivable	(1,288)	(5,709)
Inventories	(12,483)	(11,157)
Prepaid expenses and other current assets	(855)	(451)
Accounts payable	64	5,044
Accrued expenses and other current liabilities	(1,011)	11,317
Income taxes	(641)	958
Net cash provided by operating activities	39,205	43,335
Cash flows from investing activities:		
Short-term investments		
Purchases	(54,800)	(82,851)
Proceeds from dispositions	53,808	74,743
Acquisition of property, plant and equipment	(15,445)	(28,183)
Proceeds from sale of property, plant and equipment and other assets	39	5,158
Decrease (increase) in other assets	25	(261)
Acquisition, net of cash acquired	-	-
Net cash used in investing activities	(16,373)	(31,394)
Cash flows from financing activities:		
Principal payments of capital lease obligations	(464)	(1,188)
Payment of debt issuance costs	-	(213)
Issuance of common stock	2,082	1,068
Excess tax benefits from stock based awards	294	-
Net repurchase of treasury stock	-	-

Edgar Filing: GREATBATCH, INC. - Form 10-K

Net cash provided by (used in) financing activities	1,912	(333)
Net increase in cash and cash equivalents	24,744	11,608
Cash and cash equivalents, beginning of year	46,403	34,795
Cash and cash equivalents, end of year	\$ 71,147	\$ 46,403

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

57

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deferred Stock-Based Compensation	Treasury Stock Shares	Treasury Stock Amount	Retained Earnings	Accu- Ot Compre Incom
Balance, January 2, 2004	21,268	\$ 21	\$ 207,969	\$ (1,185)	5	\$ (179)	\$ 28,714	\$
Stock-based compensation	-	-	4	616	(1)	27	-	
Exercise of stock options	100	-	1,200	-	-	-	-	
Grant of restricted stock	19	-	349	(349)	-	-	-	
Forfeitures of restricted stock	(2)	-	(85)	85	-	-	-	
Repurchase of shares to settle employee tax withholding on vested restricted stock	-	-	-	-	5	(95)	-	
Income tax benefit from stock options and restricted stock	-	-	123	-	-	-	-	
Shares contributed to ESOP/401(k)	66	-	2,571	-	(4)	152	-	
Net income	-	-	-	-	-	-	14,218	
Unrealized losses on available-for- sale securities, net of tax	-	-	-	-	-	-	-	
Balance, December 31, 2004	21,451	21	212,131	(833)	5	(95)	42,932	

Edgar Filing: GREATBATCH, INC. - Form 10-K

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	-	-	-	-	-	-	10,107
Unrealized losses on available-for-sale securities, net of tax	-	-	-	-	-	-	-
<hr/>							
Balance, December 30, 2005	21,752	22	217,104	(1,490)	-	-	53,039
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	-	-	-	-	-	-	16,126
Unrealized gains on available-for-sale securities, net of tax	-	-	-	-	-	-	-
<hr/>							
Balance, December 29, 2006	22,119	\$ 22	\$ 227,187	\$ -	(8)	\$ (205)	\$ 69,165
<hr/>							

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



## Edgar Filing: GREATBATCH, INC. - Form 10-K

### 1. DESCRIPTION OF BUSINESS

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

The Company has revised its presentation of the number of shares of common stock outstanding in the Consolidated Balance Sheets and Consolidated Statements of Stockholders' Equity to include shares of restricted stock.

Nature of Operations - The Company operates 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, in 2005, the Company expanded its IMC business to include value-added assembly of products that incorporate IMD components. 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.

Financial Statement Year End - The Company utilizes a fifty-two, fifty-three week fiscal year ending on the Friday nearest December 31st. Fiscal years 2006, 2005 and 2004 ended on December 29, December 30 and December 31, respectively.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 are comprised of municipal, U.S. Government Agency and corporate notes and bonds acquired with maturities that exceed three months and are less than one year at the time of acquisition. Short-term investments also include auction rate securities and equity securities. All short-term investments as of December 29, 2006 and December 30, 2005 are classified as available-for-sale. 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 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.

59

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 29, 2006 and December 30, 2005 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.

## Edgar Filing: GREATBATCH, INC. - Form 10-K

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 3-10 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 are removed from the accounts and any gain or loss is recorded in operating income or expense.

Amortizing Intangible Assets - Acquired intangible assets other than goodwill and trademark and tradenames consist primarily of patented and unpatented technology. The Company continues to amortize its definite-lived intangible assets on a straight-line basis over their estimated useful lives as follows: patented technology, 8-17 years; unpatented technology, 5-15 years; and other intangible assets, 3-10 years.

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 trademark 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 trademark and tradenames are assessed for impairment on an annual basis, 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 trademark and tradenames has occurred.

Other Assets - Other assets includes deferred costs incurred in connection with the Company's issuance of its convertible subordinated notes. These

## Edgar Filing: GREATBATCH, INC. - Form 10-K

costs totaled \$4.5 million and are being amortized using the effective yield method over a seven-year term. Total net deferred financing fees amounted to \$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 at the end of the reporting period. 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 29, 2006 and December 30, 2005 was \$0.8 million and \$1.1 million, respectively. The Company has determined that these investments are variable interest entities for which the Company is not the primary beneficiary. 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. The Company maintains cash deposits with major banks, which from time to time may exceed federally insured limits. Note 14 - Business Segment Information contains information on sales and accounts receivable for the Company's significant customers.

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.

61

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 to customers and title passes. 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 \$18.8 million, \$7.8 million and \$0 in 2006, 2005 and 2004, respectively. These amounts were excluded from sales and cost of sales recognized by the Company.

## Edgar Filing: GREATBATCH, INC. - Form 10-K

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 29, 2006	December 30, 2005
Research and development costs	\$ 16,096	\$ 17,069
Engineering costs	9,888	5,500
Less: cost reimbursements	(1,759)	(3,844)
Engineering costs, net	8,129	1,656
Total research, development and engineering costs, net	\$ 24,225	\$ 18,725

Stock-Based Compensation - Beginning in fiscal year 2006, the Company 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 ("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.

62

Prior to fiscal year 2006, the Company accounted for stock options following the requirements of Accounting Principles Board ("APB") 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.

## Edgar Filing: GREATBATCH, INC. - Form 10-K

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 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 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	December 2004
Net income as reported	\$ 10,107	\$ 14,107
Add: stock-based compensation cost included in net income as reported, net of related tax effects	2,176	1,176
Less: stock-based compensation cost determined using the fair value based method, net of related tax effects	4,409	4,409
Pro forma net income	\$ 7,874	\$ 12,874
Net earnings per share:		
Basic - as reported	\$ 0.47	\$ 0.47
Basic - pro forma	\$ 0.36	\$ 0.36
Diluted - as reported	\$ 0.46	\$ 0.46
Diluted - pro forma	\$ 0.36	\$ 0.36

63

Net earnings per diluted share for 2005 and 2004 exclude the effect of 4,219,000 shares related to the 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

## Edgar Filing: GREATBATCH, INC. - Form 10-K

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 contingently convertible instruments. Holders of our convertible notes may convert them into shares of the Company's common stock under certain circumstances (see Note 8 - Debt for a description of our convertible subordinated notes).

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 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 deferred financing fees amortization recorded during the period.

64

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

	Year Ended	
	December 29, 2006	December 30, 2005
Numerator for basic earnings per share:		
Income from continuing operations	\$ 16,126	\$ 10,10
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	\$ 19,190	\$ 10,10
Denominator for basic earnings per share:		
Weighted average shares outstanding	21,803	21,58
Effect of dilutive securities:		
Convertible notes	4,219	
Stock options and unvested restricted stock	312	22
Dilutive potential common shares	4,531	22
Denominator for diluted earnings per share	26,334	21,81
Basic earnings per share	\$ 0.74	\$ 0.4

Edgar Filing: GREATBATCH, INC. - Form 10-K

Diluted earnings per share

\$	0.73	\$	0.4
----	------	----	-----

Net earnings per diluted share for 2005 and 2004 exclude the effect of 4,219,000 shares related to the contingent convertible notes, as the effect is anti-dilutive. The diluted weighted average share calculations do not include options for which the exercise price is less than the average market price for the Company's stock for 2006, 2005 and 2004 of 1,084,000, 908,000, and 843,000, respectively.

Comprehensive Income - The Company's accumulated other comprehensive income (loss) includes the unrealized gains (losses) on short-term investments available-for-sale, net of applicable taxes. The effect of this item was an increase in stockholders' equity on a cumulative basis by \$3.5 million at December 29, 2006 and decrease stockholders' equity by \$0.07 million at December 30, 2005. The \$3.6 million change from 2005 to 2006 is primarily due to the Company classifying one of its equity security investments as available-for-sale as prescribed in SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, which was previously accounted for under the cost method in accordance with APB No. 18, The Equity Method of Accounting for Investments in Common Stock, as the investment now has a readily determinable fair value due to the associated company's stock offering. The Company's gain (loss) on available for sale securities is included in accumulated other comprehensive income (loss) net of deferred taxes of \$1.1 million and benefit of \$0.004 million at December 29, 2006 and December 30, 2005, respectively.

65

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 29, 2006	December 30, 2005
Cash paid during the year for:		
Interest	\$ 3,888	\$ 3,971
Income taxes	2,867	52
Noncash investing and financing activities:		
Acquisition of property utilizing capitalized leases	\$ -	\$ -
Net unrealized gain (loss) on available-for-sale securities	3,594	(52)
Common stock contributed to 401(k) Plan	2,780	2,729
Property, plant and equipment purchases included in accounts payable	808	1,893
Unsettled purchase of treasury stock	205	-

## Edgar Filing: GREATBATCH, INC. - Form 10-K

Recent Accounting Pronouncements -- 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. The Company is still evaluating the impact of SFAS No. 159 on its financial statements, which is effective beginning in fiscal year 2008.

In October 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). This Statement requires companies to recognize the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability in the statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS No. 158 was effective for the Company as of December 29, 2006 and did not have a material impact on its financial statements, as the Company currently does not maintain any benefit plans that fall within the scope of SFAS No. 158.

66

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. The Company is still evaluating the impact of SFAS No. 157 on its financial statements, which is effective beginning in fiscal year 2008.

In September 2006, the SEC issued SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB No. 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of determining whether the current year's financial statements are materially misstated. SAB No. 108 was effective for the Company in fiscal year 2006 and did not have a material impact on its financial statements.

In June 2006, the FASB issued FASB Interpretation No. ("FIN") 48, Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized under SFAS No. 109, Accounting for Income Taxes. FIN 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. FIN 48 was effective beginning in fiscal year 2007 and did not have a material effect on the Company's consolidated financial position, consolidated results of operations, or liquidity.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of Accounting Research Bulletin ("ARB") No. 43, Chapter 4. SFAS



## Edgar Filing: GREATBATCH, INC. - Form 10-K

No. 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, handling costs and wasted material (spoilage). Among other provisions, the new rule requires that such items be recognized as current-period charges, regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. SFAS No. 151 was effective beginning in fiscal year 2006 and did not have a material effect on the Company's consolidated financial position, consolidated results of operations, or liquidity.

67

### 3. SHORT-TERM INVESTMENTS

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

	Cost	Gross unrealize gains
	-----	-----
December 29, 2006		
-----		
Equity Securities	\$ 291	\$ 4,588
Auction Rate Securities and Other	66,537	4
	-----	-----
Total available-for-sale securities	\$ 66,828	\$ 4,592
	=====	=====
December 30, 2005		
-----		
Equity Security	\$ 276	\$ -
Auction Rate Securities and Other	65,544	-
	-----	-----
Total available-for-sale securities	\$ 65,820	\$ -
	=====	=====

The equity securities are investments in start-up companies in related medical fields. These equity investments are subject to significant fluctuations in fair value due to the volatility of the industry.

### 4. INVENTORIES

Inventories are comprised of the following (in thousands):

	December 29, 2006		December 30, 2005
	-----		-----
Raw material	\$ 28,568	\$	24,864
Work-in-process	13,528		11,266
Finished goods	15,571		9,054
	-----		-----
Total	\$ 57,667	\$	45,184
	=====		=====

5. PROPERTY, PLANT AND EQUIPMENT

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

	December 29, 2006	Decem 2
Manufacturing machinery and equipment	\$ 69,453	\$
Buildings and building improvements	32,793	
Information technology hardware and software	19,787	
Leasehold improvements	12,142	
Land and land improvements	5,328	
Furniture and fixtures	4,230	
Property under capital leases	-	
Construction work in process	11,295	
Other	129	
	-----	-----
	155,157	
Accumulated depreciation	(63,288)	
	-----	-----
Total	\$ 91,869	\$
	=====	=====

Depreciation expense for property, plant and equipment, including property under capital leases, during 2006, 2005 and 2004 was approximately \$14.8 million, \$15.1 million and \$10.1 million, respectively.

6. AMORTIZING INTANGIBLE ASSETS

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

	Gross carrying amount	Accumulat amortiz
December 29, 2006		
Patented technology	\$ 21,462	\$ (1
Unpatented technology	30,886	(1
Other	1,340	(
	-----	-----
Total amortizing intangible assets	\$ 53,688	\$ (2
	=====	=====
December 30, 2005		
Patented technology	\$ 21,462	\$ (1
Unpatented technology	30,886	(
Other	1,340	(
	-----	-----
Total amortizing intangible assets	\$ 53,688	\$ (2
	=====	=====

Edgar Filing: GREATBATCH, INC. - Form 10-K

Annual intangible amortization expense is estimated to be \$3.8 million for 2007 and 2008, \$3.2 million for 2009 and \$2.7 million in 2010 and 2011.

69

7. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	December 29, 2006	December 2005
	-----	-----
Salaries and benefits	\$ 11,055	\$
Profit sharing and bonuses	13,928	1
Warranty	1,993	
Other	2,642	
	-----	-----
Total	\$ 29,618	\$ 2
	=====	=====

8. DEBT

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

	December 29, 2006	Deco
	-----	-----
2.25% convertible subordinated notes, due 2013	\$ 170,000	\$
Capital lease obligations	-	-
	-----	-----
	170,000	
Less current portion	-	
	-----	-----
Total long-term debt	\$ 170,000	\$
	=====	=====

Convertible Subordinated Notes - In May 2003, the Company completed a private placement of contingent convertible subordinated notes ("CSN") totaling \$170.0 million, due 2013. In November 2003 the Company had a Registration Statement with the Securities and Exchange Commission declared effective with respect to these notes and the underlying common stock. The notes bear interest at 2.25 percent per annum, payable semiannually. 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.

Holder may convert the notes into shares of the Company's common stock at

## Edgar Filing: GREATBATCH, INC. - Form 10-K

a conversion rate of 24.8219 shares per \$1,000 principal amount of notes, 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 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 principal amount of the notes 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 principal amount of the notes; (3) if the notes have been called for redemption; or (4) upon the occurrence of certain corporate events.

70

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 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.

Concurrent with the issuance of the notes, the Company used approximately \$72.5 million of the proceeds from this private placement to pay off a previously existing bank term loan. Debt issuance expenses totaled \$4.5 million and are being amortized using the effective yield method over a seven-year term. Total net deferred financing fees amounted to \$2.3 million at December 29, 2006.

The fair-value of the convertible subordinated notes based on quoted market prices as of December 29, 2006 and December 30, 2005 was \$159.8 million and \$149.0 million, respectively.

### Revolving Line of Credit

On May 31, 2005, the Company amended its Senior Secured Credit Facility, which included changes to the underlying covenants. The amended facility replaced the old \$20.0 million revolving credit facility with a new three-year \$50.0 million Revolving Credit Facility ("new revolver"), which contains a \$10.0 million sub-limit for the issuance of commercial or standby letters of credit. The new revolver is secured by the Company's non-realty assets including cash, accounts and notes receivable, and inventories. The new revolver requires the Company to comply with two quarterly financial covenants, as defined. The first relates to the ratio of consolidated net earnings or loss before interest, taxes, depreciation, and amortization ("EBITDA") to fixed charges. The second is a leverage ratio, which is calculated based on the ratio of consolidated funded debt less cash, cash equivalent investments and short-term investments to consolidated EBITDA, as defined in the Senior Secured Credit Facility agreement. Interest rates under the new revolver vary with the Company's leverage. The Company is required to pay a commitment fee of between .125% and 0.250% per annum on the unused portion of the new revolver based on the Company's leverage. As of December 29, 2006 and December 30, 2005, the Company had no balance outstanding on the new revolver.

Debt issuance expenses for the new revolver totaled \$0.2 million and are

## Edgar Filing: GREATBATCH, INC. - Form 10-K

being amortized over a three-year term. The revolver refinancing transaction resulted in the write-off of \$0.1 million of existing deferred financing fees associated with the prior revolving line of credit.

71

### 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 2006, 2005 and 2004, 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 \$0.9 million in 2006, 2005 and 2004.

**Employee Stock Ownership Plan** - The Company sponsored a non-leveraged Employee Stock Ownership Plan ("ESOP") and related trust prior to June 29, 2004. Effective June 29, 2004 the ESOP was merged into the 401(k) plan. Under the terms of the amended 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 \$3.3 million in 2006, \$2.8 million in 2005 and \$2.7 million in 2004. As of December 29, 2006, the 401(k) Plan held 501,278 shares of Company stock and there were 109,822 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 29, 2006 of \$26.92. The final number of shares contributed to the plan was 110,108, computed based on the closing market price of the Company's stock on the actual contribution date of February 20, 2007 of \$26.85.

**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 \$1.2 million, \$0.9 million and \$0.8 million in 2006, 2005 and 2004, respectively.

### 10. STOCK-BASED COMPENSATION

Compensation costs related to share-based payments for 2006 totaled \$6.4 million, \$4.4 million net of tax, or \$0.17 per diluted share and \$0.20 per basic share. This amount included \$2.4 million for accelerated vesting for certain retirement-eligible employees and \$0.3 million for modifications. This modification expense relates to the Company's adoption of executive retirement guidelines in 2005 for approximately twenty-five 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. The incremental cost of expensing stock options under SFAS No. 123(R) for 2006 was \$4.5 million, \$3.1 million net of tax or \$0.12 per diluted share and \$0.14 per basic share. 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 is 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 2006, the Board of Directors approved the grant of 183,648 shares of performance based non-qualified stock options. The performance metrics for these awards cover a three-year performance period beginning in 2006 and include the achievement of revenue, operating earnings per share and operating cash flow targets. Compensation expense related to these awards amounted to \$0.2 million during 2006.

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 2006 unless it was certain that the awards would vest (i.e. retirement eligible employees). In those instances, a 0% forfeiture rate was used.

#### Stock Options

##### Summary of Plans

-----  
 The Company's 1997 Stock Option Plan ("1997 Plan") authorizes 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 are 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") authorizes 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 are 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 authorizes 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

## Edgar Filing: GREATBATCH, INC. - Form 10-K

the Director Plan vest immediately. 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.

73

The Company's 2005 Stock Incentive Plan ("2005 Plan") authorizes the issuance of up to 1,000,000 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. 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 29, 2006, 478,189 shares were available for future grants of options under the above plans.

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

	Number of stock options	Weighted average exercise price
	-----	-----
Outstanding at January 2, 2004	1,152,900	\$ 22.50
Granted	288,516	25.97
Exercised	(99,774)	12.51
Forfeited or Expired	(91,788)	28.65
	-----	
Outstanding at December 31, 2004	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
Expected to Vest at December 29, 2006	1,514,502	\$ 24.35
Exercisable at December 29, 2006	902,613	\$ 25.33
	=====	=====

Edgar Filing: GREATBATCH, INC. - Form 10-K

- (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 29, 2006 (\$26.92) 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.

74

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

	Year Ended	
	December 29, 2006	December 30, 2005
Stock Options Exercised		
Intrinsic value	\$ 2,120	\$ 1,209
Cash received	2,082	1,068
Tax benefit realized	236	252

As of December 29, 2006, \$4.0 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 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:

Year Ende



	December 29, 2006	December 31, 2005
Weighted-average fair value	\$ 10.85	\$ 9.85
Risk-free interest rate	4.74%	3.85%
Expected volatility	42%	42%
Expected life (in years)	5	5
Expected dividend yield	0%	0%

75

Restricted Stock and Restricted Stock Units

Summary of Plans

The Company's 2002 Restricted Stock Plan authorizes the issuance of stock awards to employees. The number of shares that are reserved and may be issued under the plan cannot exceed 200,000. 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 anniversary of the date of the award and 25% on the third and fourth anniversaries of 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 authorizes the issuance of restricted stock, restricted stock units and stock bonuses of up to 400,000 shares, subject to the terms of the plan with an overall limit on awards of 1,000,000 shares. Time-vested restricted stock granted under the 2005 Plan generally vest 50% on the second anniversary of the date of the award and 25% on the third and fourth anniversaries of 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 29, 2006, there were 334,745 shares available for future grants of restricted stock, restricted stock units or stock bonuses under the 2002 and 2005 plans, 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	Weighted-Average Fair Value
Nonvested at January 2, 2004	36,900	\$ 9.85
Shares granted	19,100	
Shares vested	(13,500)	

Edgar Filing: GREATBATCH, INC. - Form 10-K

Shares forfeited	(2,200)
-----	
Nonvested at December 31, 2004	40,300
Shares granted	67,891
Shares vested	-
Shares forfeited	(14,235)
-----	
Nonvested at December 30, 2005	93,956
Shares granted	145,126
Shares vested	(25,911)
Shares forfeited	(9,015)
-----	
Nonvested at December 29, 2006	204,156 \$
=====	

76

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 (expense) from the vesting of restricted stock was \$0.05 million, \$0 and (\$0.05 million) for 2006, 2005 and 2004, respectively. As of December 29, 2006, there was \$2.7 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 Ended	
	December 29, 2006	December 31, 2005
	-----	-----
(a) Alden facility consolidation	\$ 623	\$ 2,000
(b) Carson City facility shutdown and Tijuana facility consolidation No. 1	2,743	4,000
(c) Columbia facility shutdown, Tijuana facility consolidation No. 2 and RD&E consolidation	5,125	1,000
(d) Tijuana facility start-up	-	1,000
(e) Asset dispositions and other	6,073	7,000
(f) Severance	2,494	1,000
	-----	-----
	\$ 17,058	\$ 18,000
	=====	=====

(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

## Edgar Filing: GREATBATCH, INC. - Form 10-K

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:

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

77

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

	Production inefficiencies and revalidation	Training	Moving and facility closures	
Restructuring charges	\$ 230	\$ 23	\$ 2,180	\$
Cash payments	(230)	(23)	(1,144)	
Accelerated depreciation/ asset write-offs	-	-	(838)	
	-----	-----	-----	
Balance, December 30, 2005	\$ -	\$ -	\$ 198	\$
Restructuring charges	99	-	524	
Cash payments	(99)	-	(722)	
Accelerated depreciation/ asset write-offs	-	-	-	
	-----	-----	-----	
Balance, December 29, 2006	\$ -	\$ -	\$ -	\$
	=====	=====	=====	=====

(b) Carson City Facility shutdown and Tijuana Facility consolidation No. 1. On March 7, 2005, the Company announced its intent to close the Carson City, NV facility ("Carson City Facility") and consolidate the work performed at that facility into the Tijuana, Mexico facility ("Tijuana Facility consolidation No. 1").

The Company has delayed the anticipated final closing of the Carson City Facility until the second quarter of 2007 in order to accommodate a customer's pending regulatory approval. If this regulatory approval is delayed further, additional costs could be incurred. The total revised estimate for this plan is anticipated to be between \$7.4 million and \$7.6 million of which \$7.2 million has been incurred through December 29, 2006. The major categories of costs include the following:

- o Costs related to the shutdown of the Carson City Facility:
  - a. Severance and retention - \$3.7 million;
  - b. Accelerated depreciation - \$0.6 million; and

Edgar Filing: GREATBATCH, INC. - Form 10-K

- c. Other - \$0.5 million.
- o Costs related to the Tijuana Facility consolidation No. 1:
  - a. Production inefficiencies and revalidation - \$0.4 million;
  - b. Relocation and moving - \$0.2 million;
  - c. Personnel (including travel, training and duplicate wages) - \$1.5 to \$1.7 million; and
  - d. Other - \$0.5 million.

All categories of costs are considered to be cash expenditures, except accelerated depreciation. Once the moves are completed, the Company anticipates annual cost savings in the range of \$2.5 million to \$3.1 million. The expenses for the Carson City Facility shutdown and the Tijuana Facility consolidation No. 1 is included in the IMC business segment.

78

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

	Severance and retention	Accelerated depreciation
Restructuring charges	\$ 2,096	\$ 595
Cash payments	-	-
Write-offs	-	(595)
	-----	-----
Balance, December 30, 2005	\$ 2,096	\$ -
Restructuring charges	1,455	5
Cash payments	(2,394)	-
Write-offs	-	(5)
	-----	-----
Balance, December 29, 2006	\$ 1,157	\$ -
	=====	=====

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

	Production inefficiencies and revalidation	Relocation and moving	Personnel
Restructuring charges	\$ 5	\$ 123	\$ 1,050
Cash payments	(5)	(123)	(1,050)
Write-offs	-	-	-
	-----	-----	-----
Balance, December 30, 2005	\$ -	\$ -	\$ -
Restructuring charges	288	1	651
Cash payments	(288)	(1)	(651)
Write-offs	-	-	-
	-----	-----	-----
Balance, December 29, 2006	\$ -	\$ -	\$ -

Edgar Filing: GREATBATCH, INC. - Form 10-K

=====

(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 the Columbia, MD facility ("Columbia Facility") and the 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 will relocate to the Technology Center in Clarence, NY.

The total estimated cost for this facility consolidation plan is anticipated to be between \$7.9 million and \$8.3 million of which \$6.3 million has been incurred through December 29, 2006. 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 two fiscal quarters through June 2007.

79

The major categories of costs include the following:

- o 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 - \$2.7 to \$2.8 million;
  - b. Personnel (including travel, training and duplicate wages) - \$1.5 million
  - c. Accelerated depreciation/asset write-offs - \$0.7 million; and
  - d. Other - \$0.3 to \$0.4 million.
  
- o Costs related to Tijuana Facility consolidation No. 2:
  - a. Production inefficiencies and revalidation - \$0.4 to \$0.5 million;
  - b. Relocation and moving - \$0.2 million;
  - c. Personnel (including travel, training and duplicate wages) - \$2.0 to \$2.1 million; and
  - d. Other (including asset write-offs) - \$0.1 million.

All categories of costs are considered to be cash expenditures, except for accelerated depreciation and asset write-offs. Once the moves are completed, the Company anticipates 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.

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	Oth
Restructuring charges	\$ 379	\$ -	\$ 435	\$
Cash payments	-	-	-	
Write-offs	-	-	(435)	
Balance, December 30, 2005	\$ 379	\$ -	\$ -	\$

Edgar Filing: GREATBATCH, INC. - Form 10-K

Restructuring charges	1,918	701	74
Cash payments	(550)	(701)	-
Write-offs	-	-	(74)
Balance, December 29, 2006	\$ 1,747	\$ -	\$ -

80

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

	Production inefficiencies and revalidation	Relocation and moving	Personnel
Restructuring charges	\$ -	\$ -	\$ 10
Cash payments	-	-	(10)
Balance, December 30, 2005	\$ -	\$ -	\$ -
Restructuring charges	264	149	1,584
Cash payments	(264)	(149)	(1,584)
Balance, December 29, 2006	\$ -	\$ -	\$ -

(d) Tijuana start-up. Other Tijuana start-up expenses (not associated with the Carson City Facility or Columbia Facility consolidation) during 2005 and 2004 amounted to \$1.4 million and \$0.9 million, respectively. These expenses are primarily related to the initial start-up of the value-added assembly business.

(e) Asset dispositions and other. 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 various asset dispositions of approximately \$1.0 million 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.

During 2004, the Company recorded a \$2.0 million pre-tax charge associated with the acquisition of certain patents during the second quarter of 2004. The acquired patents cover how wet tantalum capacitors are used in an Implantable Cardioverter Defibrillator. A decision was made to acquire the patents and remove this as a potential obstacle for existing customers to more fully adopt wet tantalum technology and for potential customers to initially adopt the technology. The Company had a prior legal opinion that

## Edgar Filing: GREATBATCH, INC. - Form 10-K

in effect concluded the patents were not valid, therefore the Company believed it was appropriate to record the \$2.0 million acquisition cost in accordance with its economic substance as a period expense. This expense is related to the IMC business segment. The remaining expense for 2004 relates to various asset dispositions of approximately \$0.9 million.

81

(f) 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 \$2.5 million were recorded in 2006. Expense of \$1.5 million was recorded in the IMC segment, \$0.03 million in the ECP segment and \$1.0 million was recorded in unallocated operating expenses under business segment information. Accrued severance related to this consolidation plan was \$1.8 million as of December 29, 2006 which is expected to be paid throughout 2007.

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.

In response to a reduction in sales for the 2004 year, the Company implemented a 7% workforce reduction during June 2004, which resulted in a severance charge of \$0.8 million during the second quarter. The severance charges during the second quarter 2004 were \$0.6 million and \$0.1 million for IMC and ECP, respectively. The remaining \$0.1 million related to corporate employees and is included in unallocated operating expenses.

Prior year amounts have been conformed to the current year presentation.

### 12. INCOME TAXES

The provision for income taxes was comprised of the following (in thousands):

	Year Ended	
	December 29, 2006	December 29, 2005
Current:		
Federal	\$ 2,378	\$
State	142	
	2,520	
Deferred:		
Federal	4,831	
State	57	
	4,888	
Provision for income taxes	\$ 7,408	\$

Edgar Filing: GREATBATCH, INC. - Form 10-K

82

The provision for income taxes differs from the federal statutory rate due to the following:

	Year Ended	
	December 29, 2006	December 2005
Statutory rate	35.0 %	3
State taxes, net of federal benefit	0.5	
Extraterritorial income exclusion	(3.8)	
Permanent items	1.9	
Federal and state tax credits	(2.4)	
Valuation allowance	0.7	
Other	(0.4)	
Effective tax rate	31.5 %	3

In 2006, 2005 and 2004, 92,693, 75,887, and 43,911 shares of common stock, respectively, were issued through the exercise of non-qualified stock options or through the disqualifying disposition of incentive stock options. The total tax benefit to the Company from these transactions, which is credited to additional paid-in capital rather than recognized as a reduction of income tax expense, was \$0.2 million, \$0.3 million, and \$0.2 million in 2006, 2005 and 2004, respectively. These tax benefits have also been recognized in the consolidated balance sheet as a reduction of current income taxes payable.

Deferred tax assets (liabilities) consist of the following (in thousands):

	December 29, 2006	Dece
Property, plant and equipment depreciation	\$ (3,574)	\$
Investments	(1,064)	
Contingent interest on convertible notes	(15,269)	
Intangible assets	(19,317)	
Other	(19)	
Gross deferred tax liabilities	(39,243)	
Tax credits	4,372	
Accrued expenses and deferred compensation	3,340	
Inventories	3,824	
Stock-based compensation	1,992	
Investments	-	
Net operating loss carryforwards	97	
Gross deferred tax assets	13,625	
Less valuation allowance	(4,342)	



Edgar Filing: GREATBATCH, INC. - Form 10-K

	-----	9,283	-----
Net deferred tax liability	\$	(29,960)	\$
	=====		=====
Net current deferred tax asset		5,899	
Net noncurrent deferred tax liability		(35,859)	
	-----		-----
Total net deferred tax liability	\$	(29,960)	\$
	=====		=====

83

As of December 29, 2006, the Company has available \$0.1 million of state net operating loss carryforwards and \$4.4 million of state tax credit carryforwards that begin expiring in 2013.

In assessing the realizability of deferred tax assets, management considers, within each taxing jurisdiction, whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based on the consideration of the weight of both positive and negative evidence, management has determined that it is more likely than not that a portion of the deferred tax asset as of December 29, 2006 related to certain state investment tax credits and net operating losses will not be realized. The valuation allowance decrease in 2006 was primarily due to the removal of the allowance on investments as the book basis exceeds the tax basis resulting from changes in market value, which was recorded in other comprehensive income.

During the second quarter 2006, the Internal Revenue Service ("IRS") completed its audit of the Company's 2003-2004 federal consolidated income tax returns. As a result of the audit, the Company agreed to an adjustment to reduce the rate of deductible interest on its convertible subordinated notes. The Company had previously established a deferred income tax liability for the difference between the amount of interest deducted for income taxes and the amount recorded as expense for book purposes. This adjustment (and its prospective impact on the deferred income taxes recorded in 2005) resulted in a decrease of approximately \$1.0 million in the net deferred tax liability and a cash payment of \$0.6 million was made in 2006.

13. COMMITMENTS AND CONTINGENCIES

Litigation - The Company is a party to various legal actions arising in the normal course of business including actions brought by former employees who were terminated in connection with our consolidation initiatives. While the Company does not believe that the ultimate resolution of any such pending activities will have a material adverse effect on its 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. We have meritorious defenses and are vigorously defending the matter. The potential risk of loss is between \$0.0 and \$1.7

Edgar Filing: GREATBATCH, INC. - Form 10-K

million.

License agreements - The Company is a party to various license agreements through 2018 for technology that is utilized in certain of its products. The most significant of these is an agreement to license the basic technology used for wet tantalum capacitors in the IMC segment. The Company is required to pay royalties based on agreed upon terms through August 2014. Expenses related to license agreements were \$1.5 million, \$1.6 million and \$1.3 million, for 2006, 2005, and 2004, respectively.

84

Product Warranties - The change in the aggregate product warranty liability was comprised of the following (in thousands):

	Year Ended	
	December 29, 2006	Decem 2
Beginning balance	\$ 2,443	\$
Additions to warranty reserve	1,744	
Warranty claims paid	(2,194)	
Ending balance	\$ 1,993	\$

Operating Leases - The Company is a party to various operating lease agreements for buildings, equipment and software. The Company incurred operating lease expense of \$2.3 million, \$2.7 million, and \$2.2 million, in 2006, 2005 and 2004, respectively. Minimum future annual operating lease payments are \$1.9 million in 2007; \$1.2 million in 2008; \$1.0 million in 2009; \$0.8 million in 2010; \$0.8 million in 2011 and \$2.4 million thereafter. The Company primarily leases buildings which account for the majority of the future lease payments. Lease expense includes the effect of escalation clauses and leasehold improvement incentives which are accounted for ratably over the lease term.

Workers' Compensation Trust - In Western New York, the Company is a member of a group self-insurance trust that provides workers' compensation benefits to eligible employees of the Company and other group member employers. For locations outside of Western New York, the Company utilizes traditional insurance relationships to provide workers' compensation benefits. Under the terms of the Trust, the Company makes annual contributions to the Trust based on reported salaries paid to the employees using a rate based formula. Based on actual experience, the Company could receive a refund or be assessed additional contributions. For financial statement purposes, no amounts have been recorded for any refund or additional assessment since the Trust has not informed the Company of any such adjustments. Under the trust agreement, each participating organization has joint and several liability for trust obligations if the assets of the trust are not sufficient to cover its obligation. The Company does not believe that it has any current obligations under the joint and several liability.

Purchase Commitments - Contractual obligations for purchase of goods or services are defined as agreements that are enforceable and legally binding

## Edgar Filing: GREATBATCH, INC. - Form 10-K

on the Company 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. As of December 29, 2006, the total contractual obligation related to such expenditures is \$9.7 million and will be financed by existing cash, short-term investments or cash generated from operations. We also enter into contracts for outsourced services; however, the obligations under these contracts were not significant and the contracts generally contain clauses allowing for cancellation without significant penalty.

85

### 14. BUSINESS SEGMENT INFORMATION

The Company operates its business in two reportable segments: Implantable Medical Components ("IMC") and Electrochem Commercial Power ("ECP"). The IMC segment designs and manufactures critical components used in implantable medical devices. The principal components are batteries, capacitors, filtered feedthroughs, enclosures and precision components. Additionally, in 2005, the Company expanded its IMC business to include value-added assembly of products that incorporate these components. The principal medical devices are pacemakers, defibrillators and neurostimulators. The ECP segment designs and manufactures high performance batteries and battery packs; principal markets for these products are for oil and gas exploration, pipeline inspection, telematics, oceanography equipment, seismic, communication, military and aerospace applications.

The Company defines segment income from operations as sales less cost of sales including amortization and expenses attributable to segment-specific selling, general and administrative, research, development and engineering expenses, and other operating expenses. Segment income also includes a portion of non-segment specific selling, general and administrative, and research, development and engineering expenses based on allocations appropriate to the expense categories. The remaining unallocated operating expenses are primarily corporate headquarters and administrative function expenses. The unallocated operating expenses along with other income and expense are not allocated to reportable segments. Transactions between the two segments are not significant. Segment assets are intended to correlate with invested capital. The amounts include accounts receivable, inventories, net property, plant and equipment, intangible assets, trademark and tradenames, and goodwill. Corporate assets consist primarily of cash, short-term investments available for sale, deferred income taxes and net property, plant and equipment for corporate headquarters. The accounting policies of the segments are the same as those described and referenced in Note 2. Sales by geographic area are presented by attributing sales from external customers based on where the products are shipped. An analysis and reconciliation of the Company's business segment information to the respective information in the consolidated financial statements is as follows (in thousands):

	Year End
	-----
	December 29,      December
	2006                      2005
	-----

Edgar Filing: GREATBATCH, INC. - Form 10-K

Sales:

IMC			
Medical batteries:			
ICD batteries	\$	45,140	\$ 45,
Pacemakers and other batteries		21,090	21,
ICD capacitors		16,780	20,
Feedthroughs		64,578	59,
Enclosures		23,904	23,
Other		55,915	36,
		-----	-----
Total IMC sales		227,407	207,
ECP		43,735	33,
		-----	-----
Total sales	\$	271,142	\$ 241,
		=====	=====

86

			Year Ende
		December 29,	Decembe
		2006	200
		-----	-----
Segment income from operations:			
IMC	\$	27,860	\$
ECP		12,359	
		-----	-----
Total segment income from operations		40,219	
Unallocated operating expenses		(17,843)	(
		-----	-----
Operating income as reported		22,376	
Unallocated other income and expense		1,158	
		-----	-----
Income before provision for income taxes as reported	\$	23,534	\$
		=====	=====
Depreciation and amortization:			
IMC	\$	15,068	\$
ECP		833	
		-----	-----
Total depreciation and amortization included in segment income from operations		15,901	
Unallocated depreciation and amortization		3,408	
		-----	-----
Total depreciation and amortization	\$	19,309	\$
		=====	=====

The changes in the carrying amount of goodwill:

		IMC	ECP
		-----	-----
Balance at December 30, 2005	\$	152,473	\$

Edgar Filing: GREATBATCH, INC. - Form 10-K

Goodwill recorded during the year

-

Balance at December 29, 2006

\$ 152,473 \$

87

Expenditures for tangible long-lived assets,  
excluding acquisitions:

IMC  
ECP

\$ 12,154 \$  
1,351

Total reportable segments  
Unallocated long-lived tangible assets

13,505  
855

Total expenditures

\$ 14,360 \$

Identifiable assets, net:

IMC  
ECP

\$ 379,250 \$  
25,061

Total reportable segments  
Unallocated assets

404,311  
143,516

Total assets

\$ 547,827 \$

Sales by geographic area:

United States  
Foreign countries:  
Ireland  
All other

\$ 137,138 \$  
57,208  
76,796

Consolidated sales

\$ 271,142 \$

Edgar Filing: GREATBATCH, INC. - Form 10-K

	December 29, 2006	
Long-lived tangible assets:		
United States	\$ 76,440	\$
Foreign countries	18,692	
Consolidated long-lived assets	\$ 95,132	\$

88

Three customers accounted for a significant portion of the Company's sales and accounts receivable as follows:

	Sales			
	Year Ended			
	December 29, 2006	December 30, 2005	December 31, 2004	Dece 2
Customer A	25%	35%	36%	
Customer B	26%	23%	24%	
Customer C	16%	12%	10%	
Total	67%	70%	70%	

We entered into an agreement with Boston Scientific in February 2005 pursuant to which Boston Scientific will purchase a minimum quantity of filtered feedthroughs at prices specified in the agreement. The period of the agreement is February 10, 2005 to December 31, 2007. Our previously disclosed agreements with Boston Scientific pursuant to which Boston Scientific purchased wet tantalum capacitors and batteries have expired. Both parties are negotiating follow-on agreements with targeted completion during the first quarter of 2007. Purchases and shipments of wet tantalum capacitors and batteries continue during contract negotiations.

15. QUARTERLY SALES AND EARNINGS DATA - UNAUDITED

	4th Qtr.	3rd Qtr.	2nd Qtr.
2006	(in thousands, except per share data)		
-----			
Sales	\$ 63,143	\$ 69,294	\$ 70,598

Edgar Filing: GREATBATCH, INC. - Form 10-K

Gross profit (1)	22,396	25,637	26,777
Net income	1,394	3,239	4,843
Earnings per share - basic	0.06	0.15	0.22
Earnings per share - diluted	0.06	0.15	0.21

2005

-----			
Sales	\$ 58,857	\$ 62,358	\$ 63,524
Gross profit (1)	18,510	23,213	24,161
Net income	68	756	5,280
Earnings per share - basic	0.00	0.03	0.24
Earnings per share - diluted	0.00	0.03	0.23

(1) Gross profit equals total sales minus cost of sales including amortization of intangibles.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

89

ITEM 9A. CONTROLS AND PROCEDURES

Management's Report on Internal Control Over Financial Reporting - Appears under Part II, Item 8, "Financial Statements and Supplementary Data."

a. Evaluation of Disclosure Controls and Procedures.

Our management, including the principal executive officer and principal financial officer, evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) related to the recording, processing, summarization and reporting of information in our reports that we file with the SEC. These disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to us, including our subsidiaries, is made known to our management, including these officers, by other of our employees, and that this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the SEC's rules and forms.

Based on their evaluation, as of December 29, 2006, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective.

b. Changes in Internal Control Over Financial Reporting.

There have been no changes in our internal control over financial reporting that occurred during our last fiscal quarter to which this Annual Report on Form 10-K relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Edgar Filing: GREATBATCH, INC. - Form 10-K

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE OF THE REGISTRANT

Information regarding directors, executive officers and corporate governance in the Proxy Statement for the 2007 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation in the Proxy Statement for the 2007 Annual Meeting of Stockholders is incorporated herein by reference.

90

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding security ownership of certain beneficial owners in the Proxy Statement for the 2007 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions, and director independence in the Proxy Statement for the 2007 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding the fees paid to and services provided by Deloitte & Touche LLP, the Company's independent registered public accounting firm, in the Proxy Statement for the 2007 Annual Meeting of Stockholders is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) LIST OF DOCUMENTS FILED AS PART OF THIS REPORT

(1) FINANCIAL STATEMENTS

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 29, 2006 and December 30, 2005.

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



## Edgar Filing: GREATBATCH, INC. - Form 10-K

December 31, 2004.

Consolidated Statements of Cash Flows for the years ended December 29, 2006, December 30, 2005 and December 31, 2004.

Consolidated Statements of Stockholders' Equity for the years ended December 29, 2006, December 30, 2005 and December 31, 2004.

Notes to Consolidated Financial Statements.

91

### (2) FINANCIAL STATEMENT SCHEDULES

The following financial statement schedule is included in this report on Form 10-K: Schedule II - Valuation and Qualifying Accounts.

#### Schedule II - Valuation and Qualifying Accounts

Col. A Description	Col. B Balance at Beginning of Period	Additions		Col. D Deductions - Describe
		Charged to Costs & Expenses	Charged to Other Accounts- Describe	
			(in thousands)	
December 29, 2006				
Allowance for doubtful accounts	\$ 450	\$ 179	\$ -	\$ (97) (2)
Valuation allowance for deferred income tax assets	\$ 4,843	\$ 40 (1)	\$ -	\$ (541) (3)
December 30, 2005				
Allowance for doubtful accounts	\$ 405	\$ 66	\$ -	\$ (21) (2)
Valuation allowance for deferred income tax assets	\$ 3,701	\$ 1,142 (1)	\$ -	\$ -
December 31, 2004				
Allowance for doubtful accounts	\$ 426	\$ 5	\$ -	\$ (26) (2)
Valuation allowance for deferred income tax assets	\$ 565	\$ 3,136 (1)	\$ -	\$ -

(1) Valuation allowance recorded in the provision for income taxes for certain net operating losses.

(2) Accounts written off, net of collections on accounts receivable previously written off.

(3) Reversal of valuation allowance related to available for sale investments.

Schedules not listed above have been omitted because the information required to

## Edgar Filing: GREATBATCH, INC. - Form 10-K

be set forth therein is not applicable or is shown in the financial statements or notes thereto.

92

### (3) EXHIBITS

EXHIBIT NUMBER -----	DESCRIPTION -----
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to our Registration Statement on Form S-1 (File No. 333-37554)).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to our Quarterly Report on Form 10-Q for the quarterly period ended March 29, 2002).
4.1	Indenture for 2 1/4 % Convertible Subordinated Debentures Due 2013 dated May 28, 2003 (incorporated by reference to Exhibit 4.2 to our Registration Statement on Form S-3 (File No. 333-107667) filed on August 5, 2003).
4.2	Registration Rights Agreement dated May 28, 2003 by among us and the initial purchasers of the Debentures described above (incorporated by reference to Exhibit 4.2 to our Registration Statement on Form S-3 (File No. 333-107667) filed on August 5, 2003).
10.1#	1997 Stock Option Plan (including form of "standard" option agreement and form of "special" option agreement) (incorporated by reference to Exhibit 10.1 to our Registration Statement on Form S-1 (File No. 333-37554)).
10.2#	1998 Stock Option Plan (including form of "standard" option agreement, form of "special" option agreement and form of "non-standard" option agreement) (incorporated by reference to Exhibit 10.2 to our Registration Statement on Form S-1 (File No. 333-37554)).
10.3#	Wilson Greatbatch Ltd. Equity Plus Plan Money Purchase Plan (incorporated by reference to Exhibit 10.3 to our Registration Statement on Form S-1 (File No. 333-37554)).
10.4#	Wilson Greatbatch Ltd. Equity Plus Plan Stock Bonus Plan (incorporated by reference to Exhibit 10.4 to our Registration Statement on Form S-1 (File No. 333-37554)).
10.5#	Non-Employee Director Stock Incentive Plan (incorporated by reference to Exhibit A to our Definitive Proxy Statement on Schedule 14-A filed on April 22, 2002).
10.6#	Amended and Restated Employment Agreement dated June 30, 2006 between Greatbatch, Inc. and Edward F. Voboril (incorporated by reference to Exhibit 10 to our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006).

93

## Edgar Filing: GREATBATCH, INC. - Form 10-K

- 10.7 Second Amended and Restated Credit Agreement dated as of May 31, 2005 by and among Greatbatch Ltd., the lenders party thereto and Manufacturers and Traders Trust Company, as administrative agent (incorporated by reference to Exhibit 10 of our Quarterly Report on Form 10-Q for the quarter ended July 1, 2005).
- 10.8# 2002 Restricted Stock Plan (incorporated by reference to Appendix B to our Definitive Proxy Statement on Schedule 14A filed on April 9, 2003).
- 10.9+ Supply Agreement dated April 10, 2003, between Greatbatch, Inc. and Boston Scientific/CRM (incorporated by reference to our Quarterly Report on Form 10-Q for the quarter ended April 4, 2003).
- 10.10+ Amendment No.1, dated October 8, 2004, to Supply Agreement dated April 10, 2003, between Greatbatch, Inc. and Boston Scientific/CRM (incorporated by reference to Exhibit 10.10 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
- 10.11 License Agreement, dated August 8, 1996, between Wilson Greatbatch Ltd. and Evans Capacitor Company (incorporated by reference to Exhibit 10.23 to our Registration Statement on Form S-1 (File No. 333-37554)).
- 10.12+ Amendment No. 2, dated December 6, 2002, between Wilson Greatbatch Technologies, Ltd. and Evans Capacitor Company (incorporated by reference to Exhibit 10.18 to our Annual Report on Form 10-K for the year ended January 3, 2003).
- 10.13+ Supplier Partnering Agreement dated as of October 23, 2003, between Greatbatch, Inc. and Pacesetter, Inc., a St. Jude Medical Company (incorporated by reference to Exhibit 10.20 to our Annual Report on Form 10-K for the year ended January 2, 2004).
- 10.14+ Amendment No. 1, dated October 8, 2004, to Supplier Partnering Agreement dated as of October 23, 2003, between Greatbatch, Inc. and Pacesetter, Inc., d/b/a St. Jude Medical CRMD (incorporated by reference to Exhibit 10.14 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
- 10.15+ Purchase Order for wet tantalum capacitors dated December 17, 2004, between Greatbatch, Inc. and Boston Scientific Corporation and related documents (incorporated by reference to Exhibit 10.15 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
- 10.16+ License Agreement dated October 25, 2005 between Greatbatch, Inc. and Medtronic, Inc. (incorporated by reference to Exhibit 10.16 to our Annual Report on Form 10-K for the fiscal year ended December 30, 2005).
- 10.17#\* Form of Change of Control Agreement, dated August 14, 2006, between Greatbatch, Inc. and our executive officers (Thomas J.

## Edgar Filing: GREATBATCH, INC. - Form 10-K

Hook, Thomas J. Mazza, Mauricio Arellano, Susan M. Bratton, Susan Campbell, Barbara Davis, Timothy McEvoy, Marco F. Benedetti, Edward F. Voboril and Larry T. DeAngelo).

- 10.18# Employment Agreement dated November 3, 2006 between Greatbatch, Inc. and Larry T. DeAngelo (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarterly period ended September 29, 2006).
- 10.19# Employment Agreement dated August 8, 2006 between Greatbatch, Inc. and Thomas J. Hook (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarterly period ended September 29, 2006).
- 10.20# Greatbatch, Inc. Directors Compensation Policy (incorporated by reference to Exhibit 10.20 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2004 as amended by Item 1.01 of Form 8-K filed on February 16, 2006).
- 10.21 2005 Stock Incentive Plan (incorporated by reference to Exhibit A to our Definitive Proxy Statement on Schedule 14A filed on April 29, 2005).
- 10.22 Form of Restricted Stock Award Letter (incorporated by reference to Exhibit 10.22 to our Annual Report on Form 10-K for the fiscal year ended December 30, 2005).
- 10.23 Form of Incentive Stock Option Award Letter (incorporated by reference to Exhibit 10.23 to our Annual Report on Form 10-K for the fiscal year ended December 30, 2005).
- 10.24 Form of Nonqualified Option Award Letter (incorporated by reference to Exhibit 10.24 to our Annual Report on Form 10-K for the fiscal year ended December 30, 2005).
- 10.25 Form of Stock Option Award Letter (incorporated by reference to Exhibit 10.25 to our Annual Report on Form 10-K for the fiscal year ended December 30, 2005).
- 10.26+ Supply Agreement for medical device components dated March 31, 2006, between Greatbatch, Inc. and SORIN/ELA BIOMEDICA CRM and ELA MEDICAL SAS (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006).
- 12.1\* Ratio of Earnings to Fixed Charges - Unaudited.
- 21.1\* List of subsidiaries.
- 23.1\* Consent of Deloitte & Touche LLP.
- 31.1\* Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.
- 31.2\* Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.
- 32.1\* Certification of Chief Executive Officer and Chief Financial

## Edgar Filing: GREATBATCH, INC. - Form 10-K

Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Portions of those exhibits marked "+" have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.

\* Filed herewith.

# Indicates exhibits that are management contracts or compensation plans or arrangements required to be filed pursuant to Item 14(c) of Form 10-K.

### SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 27, 2007 GREATBATCH, INC.

By /s/ Thomas J. Hook

-----  
Thomas J. Hook  
President & Chief Executive Officer  
(Principal Executive Officer)

By /s/ Thomas J. Mazza

-----  
Thomas J. Mazza  
Senior Vice President & Chief Financial Officer  
(Principal Financial Officer)

By /s/ Marco F. Benedetti

-----  
Marco F. Benedetti  
Corporate Controller  
(Principal Accounting Officer)

96

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature -----	Title -----	Date ----
By /s/ Thomas J. Hook ----- Thomas J. Hook	President & Chief Executive Officer & Director	February 27, 2007
/s/ Edward F. Voboril ----- Edward F. Voboril	Chairman & Director	February 27, 2007
/s/ Pamela G. Bailey -----	Director	February 27, 2007

Edgar Filing: GREATBATCH, INC. - Form 10-K

Pamela G. Bailey

/s/Dr. Joseph A. Miller, Jr. Director February 27, 2007

-----  
Dr. Joseph A. Miller, Jr.

/s/ Bill R. Sanford Director February 27, 2007

-----  
Bill R. Sanford

-----  
Director

-----  
Peter H. Soderberg

/s/ Thomas S. Summer Director February 27, 2007

-----  
Thomas S. Summer

/s/ William B. Summers, Jr. Director February 27, 2007

-----  
William B. Summers, Jr.

/s/ John P. Wareham Director February 27, 2007

-----  
John P. Wareham

97

EXHIBIT INDEX

EXHIBIT NUMBER -----	DESCRIPTION -----
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to our Registration Statement on Form S-1 (File No. 333-37554)).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to our Quarterly Report on Form 10-Q for the quarterly period ended March 29, 2002).
4.1	Indenture for 2 1/4 % Convertible Subordinated Debentures Due 2013 dated May 28, 2003 (incorporated by reference to Exhibit 4.2 to our Registration Statement on Form S-3 (File No. 333-107667) filed on August 5, 2003).
4.2	Registration Rights Agreement dated May 28, 2003 by among us and the initial purchasers of the Debentures described above (incorporated by reference to Exhibit 4.2 to our Registration Statement on Form S-3 (File No. 333-107667) filed on August 5, 2003).
10.1#	1997 Stock Option Plan (including form of "standard" option agreement and form of "special" option agreement) (incorporated by reference to Exhibit 10.1 to our Registration Statement on Form S-1 (File No. 333-37554)).
10.2#	1998 Stock Option Plan (including form of "standard" option agreement, form of "special" option agreement and form of "non-standard" option agreement) (incorporated by reference to Exhibit

## Edgar Filing: GREATBATCH, INC. - Form 10-K

- 10.2 to our Registration Statement on Form S-1 (File No. 333-37554)).
- 10.3# Wilson Greatbatch Ltd. Equity Plus Plan Money Purchase Plan (incorporated by reference to Exhibit 10.3 to our Registration Statement on Form S-1 (File No. 333-37554)).
- 10.4# Wilson Greatbatch Ltd. Equity Plus Plan Stock Bonus Plan (incorporated by reference to Exhibit 10.4 to our Registration Statement on Form S-1 (File No. 333-37554)).
- 10.5# Non-Employee Director Stock Incentive Plan (incorporated by reference to Exhibit A to our Definitive Proxy Statement on Schedule 14-A filed on April 22, 2002).
- 10.6# Amended and Restated Employment Agreement dated June 30, 2006 between Greatbatch, Inc. and Edward F. Voboril (incorporated by reference to Exhibit 10 to our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006).
- 98
- 10.7 Second Amended and Restated Credit Agreement dated as of May 31, 2005 by and among Greatbatch Ltd., the lenders party thereto and Manufacturers and Traders Trust Company, as administrative agent (incorporated by reference to Exhibit 10 of our Quarterly Report on Form 10-Q for the quarter ended July 1, 2005).
- 10.8# 2002 Restricted Stock Plan (incorporated by reference to Appendix B to our Definitive Proxy Statement on Schedule 14A filed on April 9, 2003).
- 10.9+ Supply Agreement dated April 10, 2003, between Greatbatch, Inc. and Boston Scientific/CRM (incorporated by reference to our Quarterly Report on Form 10-Q for the quarter ended April 4, 2003).
- 10.10+ Amendment No.1, dated October 8, 2004, to Supply Agreement dated April 10, 2003, between Greatbatch, Inc. and Boston Scientific/CRM (incorporated by reference to Exhibit 10.10 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
- 10.11 License Agreement, dated August 8, 1996, between Wilson Greatbatch Ltd. and Evans Capacitor Company (incorporated by reference to Exhibit 10.23 to our Registration Statement on Form S-1 (File No. 333-37554)).
- 10.12+ Amendment No. 2, dated December 6, 2002, between Wilson Greatbatch Technologies, Ltd. and Evans Capacitor Company (incorporated by reference to Exhibit 10.18 to our Annual Report on Form 10-K for the year ended January 3, 2003).
- 10.13+ Supplier Partnering Agreement dated as of October 23, 2003, between Greatbatch, Inc. and Pacesetter, Inc., a St. Jude Medical Company (incorporated by reference to Exhibit 10.20 to our Annual Report on Form 10-K for the year ended January 2, 2004).
- 10.14+ Amendment No. 1, dated October 8, 2004, to Supplier Partnering Agreement dated as of October 23, 2003, between Greatbatch, Inc.

## Edgar Filing: GREATBATCH, INC. - Form 10-K

and Pacesetter, Inc., d/b/a St. Jude Medical CRMD (incorporated by reference to Exhibit 10.14 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2004).

- 10.15+ Purchase Order for wet tantalum capacitors dated December 17, 2004, between Greatbatch, Inc. and Boston Scientific Corporation and related documents (incorporated by reference to Exhibit 10.15 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
- 10.16+ License Agreement dated October 25, 2005 between Greatbatch, Inc. and Medtronic, Inc. (incorporated by reference to Exhibit 10.16 to our Annual Report on Form 10-K for the fiscal year ended December 30, 2005).
- 99
- 10.17#\* Form of Change of Control Agreement, dated August 14, 2006, between Greatbatch, Inc. and our executive officers (Thomas J. Hook, Thomas J. Mazza, Mauricio Arellano, Susan M. Bratton, Susan Campbell, Barbara Davis, Timothy McEvoy, Marco F. Benedetti, Edward F. Voboril and Larry T. DeAngelo).
- 10.18# Employment Agreement dated November 3, 2006 between Greatbatch, Inc. and Larry T. DeAngelo (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarterly period ended September 29, 2006).
- 10.19# Employment Agreement dated August 8, 2006 between Greatbatch, Inc. and Thomas J. Hook (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarterly period ended September 29, 2006).
- 10.20# Greatbatch, Inc. Directors Compensation Policy (incorporated by reference to Exhibit 10.20 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2004 as amended by Item 1.01 of Form 8-K filed on February 16, 2006).
- 10.21 2005 Stock Incentive Plan (incorporated by reference to Exhibit A to our Definitive Proxy Statement on Schedule 14A filed on April 29, 2005).
- 10.22 Form of Restricted Stock Award Letter (incorporated by reference to Exhibit 10.22 to our Annual Report on Form 10-K for the fiscal year ended December 30, 2005).
- 10.23 Form of Incentive Stock Option Award Letter (incorporated by reference to Exhibit 10.23 to our Annual Report on Form 10-K for the fiscal year ended December 30, 2005).
- 10.24 Form of Nonqualified Option Award Letter (incorporated by reference to Exhibit 10.24 to our Annual Report on Form 10-K for the fiscal year ended December 30, 2005).
- 10.25 Form of Stock Option Award Letter (incorporated by reference to Exhibit 10.25 to our Annual Report on Form 10-K for the fiscal year ended December 30, 2005).
- 10.26+ Supply Agreement for medical device components dated March 31, 2006, between Greatbatch, Inc. and SORIN/ELA BIOMEDICA CRM and



## Edgar Filing: GREATBATCH, INC. - Form 10-K

ELA MEDICAL SAS (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006).

12.1\* Ratio of Earnings to Fixed Charges - Unaudited.

100

21.1\* List of subsidiaries.

23.1\* Consent of Deloitte & Touche LLP.

31.1\* Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.

31.2\* Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.

32.1\* Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Portions of those exhibits marked "+" have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.

\* Filed herewith.

# Indicates exhibits that are management contracts or compensation plans or arrangements required to be filed pursuant to Item 14(c) of Form 10-K.

101