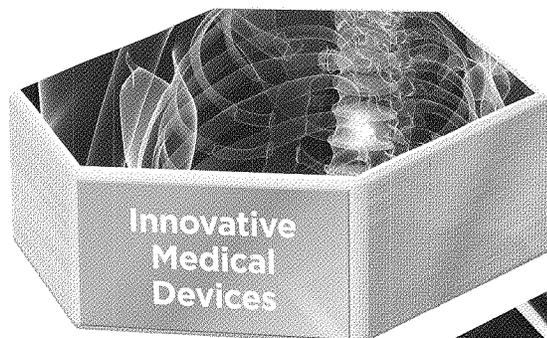
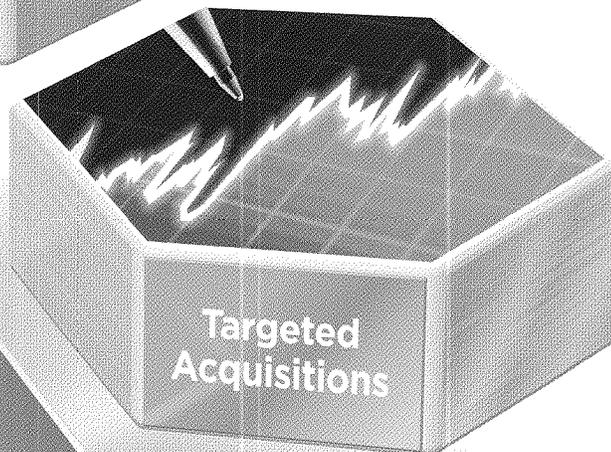




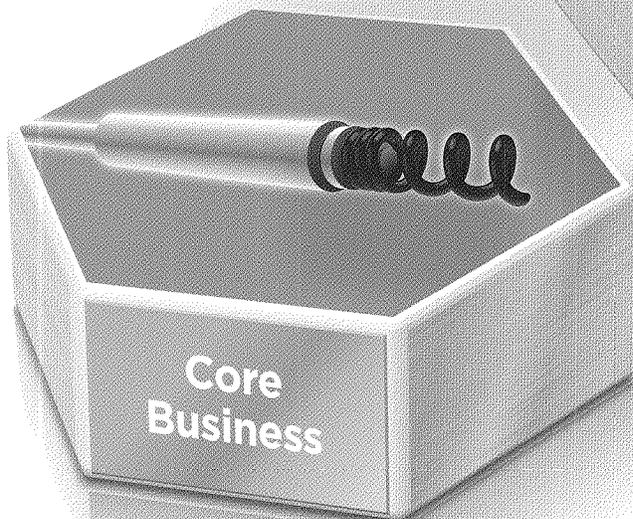
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Innovative  
Medical  
Devices



Targeted  
Acquisitions



Core  
Business

**Growth.**

## COMPANY PROFILE

Over the last 40 years, Greatbatch has developed a reputation as a leading technology company in the medical device and commercial markets. Greatbatch provides components and complete medical devices that support and empower its industry-leading customers in their pursuit of revolutionary technology solutions. Greatbatch provides these top-quality technologies through its brands, Greatbatch Medical, Electrochem and the QiG Group.

Greatbatch Medical designs and manufactures critical medical device technologies for the Cardiac Rhythm Management (CRM), Neuromodulation, Vascular Access and Orthopaedic markets. Additionally, Greatbatch Medical offers its OEM customers complete medical devices including design, development, manufacturing, regulatory submission and supporting worldwide distribution. The development of these medical devices is being facilitated through the QiG Group and leverages the component technology of Greatbatch Medical and Electrochem. These world-class medical devices are expanding and re-defining the fields of cardiovascular and neuromodulation.

Electrochem is a leader in the design and manufacture of customized battery and wireless sensing solutions for markets where failure is not an option. Electrochem's legacy for innovation, superior quality and reliability is utilized across a range of critical applications in the Portable Medical, Energy, Military, Environmental and Process Control industries. Offering comprehensive technology solutions, Electrochem is a key development partner to large, global OEMs in industries where innovation is fundamental to growth.

Greatbatch's commitment to diversification, operational excellence and innovation has given it multiple platforms from which to drive **GROWTH**.

### FAST FACTS

(As of December 30, 2011)

#### Ticker Symbol

NYSE - GB

#### Market Capitalization

\$520 million

#### Midpoint of 2012 Revenue Guidance

\$655 million

#### Associates

3,300

#### Patents Issued

850

#### Patents Pending

565

#### Global Headquarters

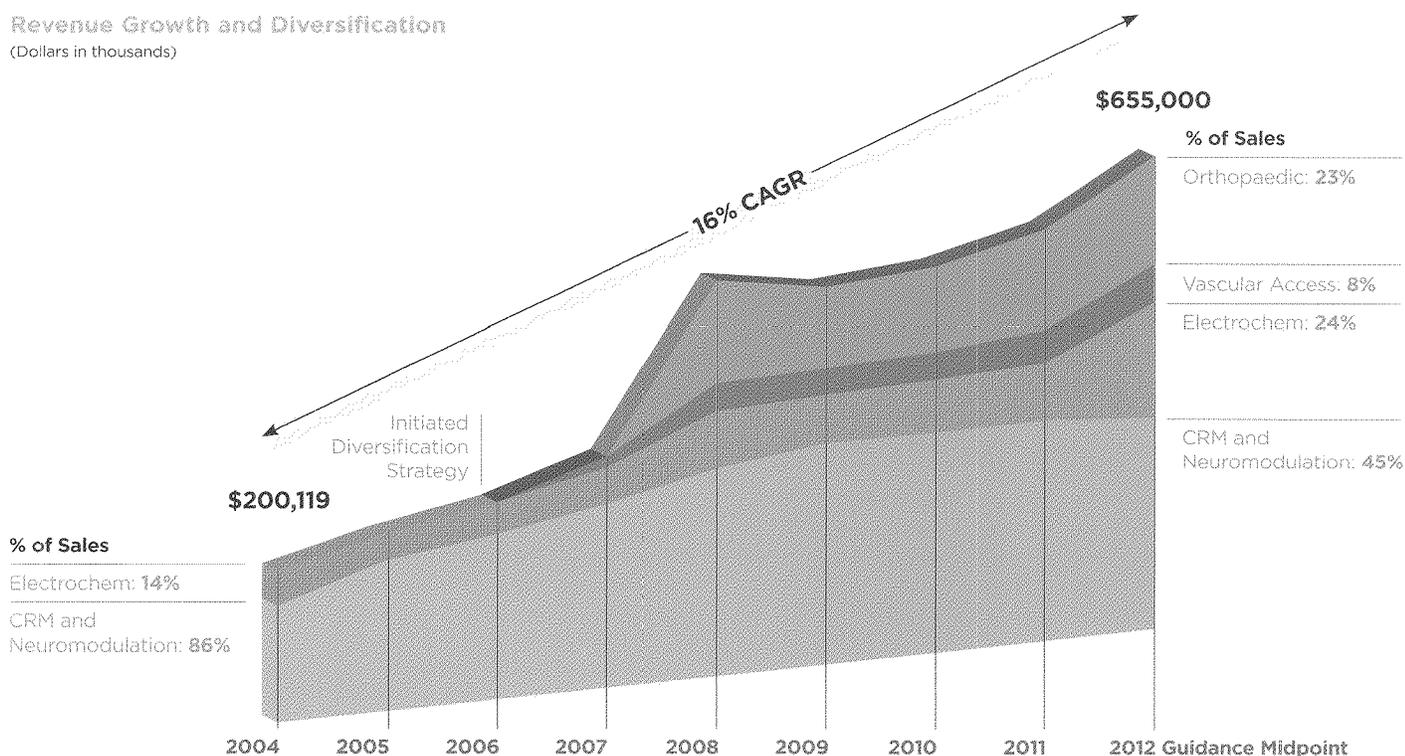
Clarence, New York

#### Website

[www.greatbatch.com](http://www.greatbatch.com)

### Revenue Growth and Diversification

(Dollars in thousands)





- Signed long-term agreements with five largest OEM customers, locking in a significant portion of revenue up to 2019, and includes the supply of medical devices developed by the QiG Group.
- Successfully navigated the significant headwinds in the global CRM market to hold revenue flat through diversification and cross-selling, while generating double digit growth in Vascular Access and Orthopaedics.
- Expanded infrastructure and enhanced capabilities in Orthopaedics including Indianapolis, IN, facility refresh, opening the Columbia City, IN, pilot line and beginning construction of Fort Wayne, IN, facility. Initiated plans to further rationalize and optimize Orthopaedic operations in order to drive future capabilities, synergies and revenue growth.
- Continued to make significant investment in quality systems in order to support worldwide device manufacturing.
- Sales of medical devices developed by the QiG Group were approximately \$5 million for 2011.
- Made significant progress in the development of Algostim, a spinal cord stimulator for the treatment of chronic pain of the trunk and limbs, which is on track for regulatory submission near the end of 2012.
- Generated a significant amount of patents and intellectual property in connection with the development of over 15 medical devices.
- Filed for and received numerous worldwide medical device regulatory clearances, including two FDA 510(k) clearances which were received in the first quarter of 2012. Commercialization of innovative medical devices, such as these, will help drive future growth and are critical to the long-term success of the company.
- Generated a \$4.5 million gain from the sale of one of its strategic equity investments.
- Achieved 9% revenue growth, which was driven by investments made in sales and marketing and will continue to drive growth in 2012 and beyond.
- Completed acquisition of Micro Power Electronics in December 2011, which complemented Electrochem's product and customer portfolios, creating a leading position in the Portable Medical segment, a bicoastal presence, more comprehensive product solutions and larger capacity for growth.
- Completed ISO 13485:2003 registration audit at its Raynham, MA, facility and received recommendation for certification. This certification is a testament to Electrochem's quality management systems and its ability to provide medical devices and related services that consistently meet regulatory and customer requirements.
- Gained market share and secured long-term supply agreements with several of its larger customers in markets where long-term agreements are not standard.

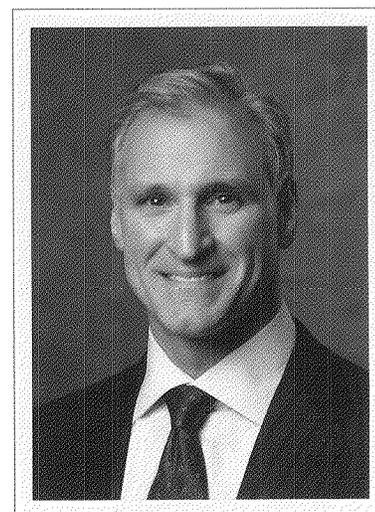
# Letter to Shareholders

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Dear Shareholders:

Greatbatch delivered another year of strong performance and execution in 2011 across our core businesses of Greatbatch Medical and Electrochem, as well as the innovative efforts within the QiG Group, our technology incubator for the design and development of medical devices. What's most notable about 2011 is that this performance occurred despite challenging external global headwinds. Unlike some years where we may encounter only one or two obstacles, 2011 presented multiple challenges ranging from the credit downgrade in the U.S.; the European sovereign debt crisis; uncertainty in the healthcare system created by health care legislation; and a decline in our core market growth rates – namely Cardiac Rhythm Management (CRM). Despite this extraordinarily tough macroeconomic environment, in 2011 our company reported revenue growth of 7%, adjusted diluted earnings per share growth of 11% and generated \$90 million in operating cash flow. Additionally, during 2011 we remained committed to our medical device strategy and made significant progress toward this imperative.

Over the past several years, we have been committed to growing and diversifying our revenue, driving operational excellence, and delivering innovative solutions to our customers. The confluence of these efforts was integral to the results we achieved in 2011 and have provided us with multiple levers to accelerate our growth and profitability. Even though operational excellence and innovation will always be core competencies of our company, we are now ideally poised to focus more attention on driving growth. Simply put, as we look ahead, our core strategic platforms will be focused very powerfully on one overarching objective: **GROWTH**.



Thomas J. Hook  
President & Chief Executive Officer

## **Growth: Core Business**

Our first strategic platform for driving growth is to deliver *organic revenue and profitability growth* in our core businesses. Each of our product lines possesses different characteristics and multiple levers from which to grow.

Despite its short-term macroeconomic challenges, the CRM market continues to exhibit fundamentals that position us for longer-term growth. In particular, advances in technology, increasing complexity of devices and expanding patient populations within emerging markets such as Asia and Latin America, all provide us with ample opportunities to drive growth. We remain focused on protecting our market share by engaging in longer-term contracts with our OEM customers, while at the same time driving growth by expanding our relationship with those partners.

During 2011, we were able to increase our Neuromodulation revenue by nearly 10% due to our low market penetration and the higher growth profile of this market. Our portfolio of proprietary products, which enable smaller device size and increased power, longevity and reliability, provides us with a foundation to grow and is a natural evolution from our legacy CRM business. Additionally, the growth profile of this product line will be elevated by our medical device strategy as the Neuromodulation devices we are developing leverage the technologies and components of Greatbatch Medical.

Similar to Neuromodulation, in Vascular Access it is our intention to grow organically by commercializing the medical devices emanating from the QiG Group. During 2011, these medical devices provided nearly \$5 million of incremental revenue and were the main driver behind our 19% growth in this product line. For 2012, we again see double-digit growth in Vascular Access sales as more of our medical devices commercialize.

Over the long-term, our Orthopaedic business presents us with considerable organic growth opportunities as we continue to expand our capabilities and build a track record of reliable customer service. One example of our broadening capabilities is the construction of our new facility in Fort Wayne, IN, which is expected to open by mid-2012. In addition, during 2011 we added a dedicated pilot line to our Columbia City, IN, facility and updated our Indianapolis, IN, facility. These investments are establishing Greatbatch Medical as a more comprehensive and capable partner to the world's leading orthopaedic OEM companies. This in turn is translating into deeper customer relationships and the realization of above-market growth.

As we move forward, we also expect to deliver strong organic growth in our Electrochem segment. During 2011, Electrochem achieved 6% organic revenue growth by deepening customer relationships as well as the investments made in sales and marketing over the last several years. These investments, coupled with our innovative product portfolio and market share growth opportunities within our Portable Medical and Military markets, provide us a significant platform from which to grow.

Combined with this top-line growth will be our legacy focus on driving operational efficiencies. This combination will result in an acceleration of earnings growth and help drive shareholder value in the future.

#### **Growth: Targeted Acquisitions**

Continuing a core competency well-honed over the history of our Company, *targeted acquisitions* remain a critical platform of our growth strategy. This strategy is being enabled by our efficient manufacturing base, which generates significant cash flow to fund acquisitions. In evaluating potential acquisitions, we are focused on targeted acquisitions within our core markets that provide us complementary product offerings, manufacturing and operational scale, as well as technology and proprietary "know-how." Two recent examples of this strategy were our acquisition of Micro Power Electronics in December 2011 and NeuroNexus Technologies in February 2012. Micro Power further diversified Electrochem's revenue base, gave them a leading position in the Portable Medical market and provided them with a bicoastal operating platform. NeuroNexus provided our QIG Group with additional intellectual property, as well as leading edge technologies and capabilities that support the development of innovative neural interface devices.

Going forward, we expect to continue to identify and consummate targeted acquisitions that will enhance our growth trajectory. Given our track record of executing and integrating acquisitions in the past, we are confident in our ability to be successful in doing so in the future.

#### **Growth: Innovative Medical Devices**

Innovation was a predominant theme in 2011, and we intend to continue our aggressive investment in the development of *innovative medical devices* as the third platform of our growth strategy. At our Investor Day Meeting in March 2011, we introduced to you our QIG Group and a number of new and exciting medical devices that they are developing. One of the most significant announcements we made was Algostim, our revolutionary neurostimulator currently in development to treat chronic pain of the trunk and limbs. We successfully advanced the development of Algostim during 2011 and are engaged in the critical stages of design verification testing. Given the progress made, we are on track for regulatory submission to the U.S. FDA near the end of 2012 and we remain confident that market availability will occur in 2014. Our enthusiasm for this device continues to escalate as its development moves forward and we are increasingly optimistic that the \$1.3 billion-and-growing global market for spinal cord stimulation presents a real opportunity for us. Given that Algostim is based on a technology platform that is highly adaptable to other related neuromodulation applications, the market potential extends well beyond that of spinal cord stimulation - although these opportunities will admittedly emerge several years out.

The intellectual property and medical devices that we are developing are creating tremendous value for our shareholders, and will be critical to the future success of our company. Our medical device pipeline holds the potential to redefine the fields of cardiovascular and neuromodulation, which in turn, will ultimately enhance our growth profile.

In summary, as we look out at the upcoming year and beyond, Greatbatch will execute on its growth strategy by delivering on three key platforms: ***Driving Core Business Growth, Delivering Targeted Acquisitions*** and ***Innovating New Medical Devices***. Despite the challenges and uncertainties in our markets and the global economy, we look ahead with optimism and confidence to execute on this strategy.

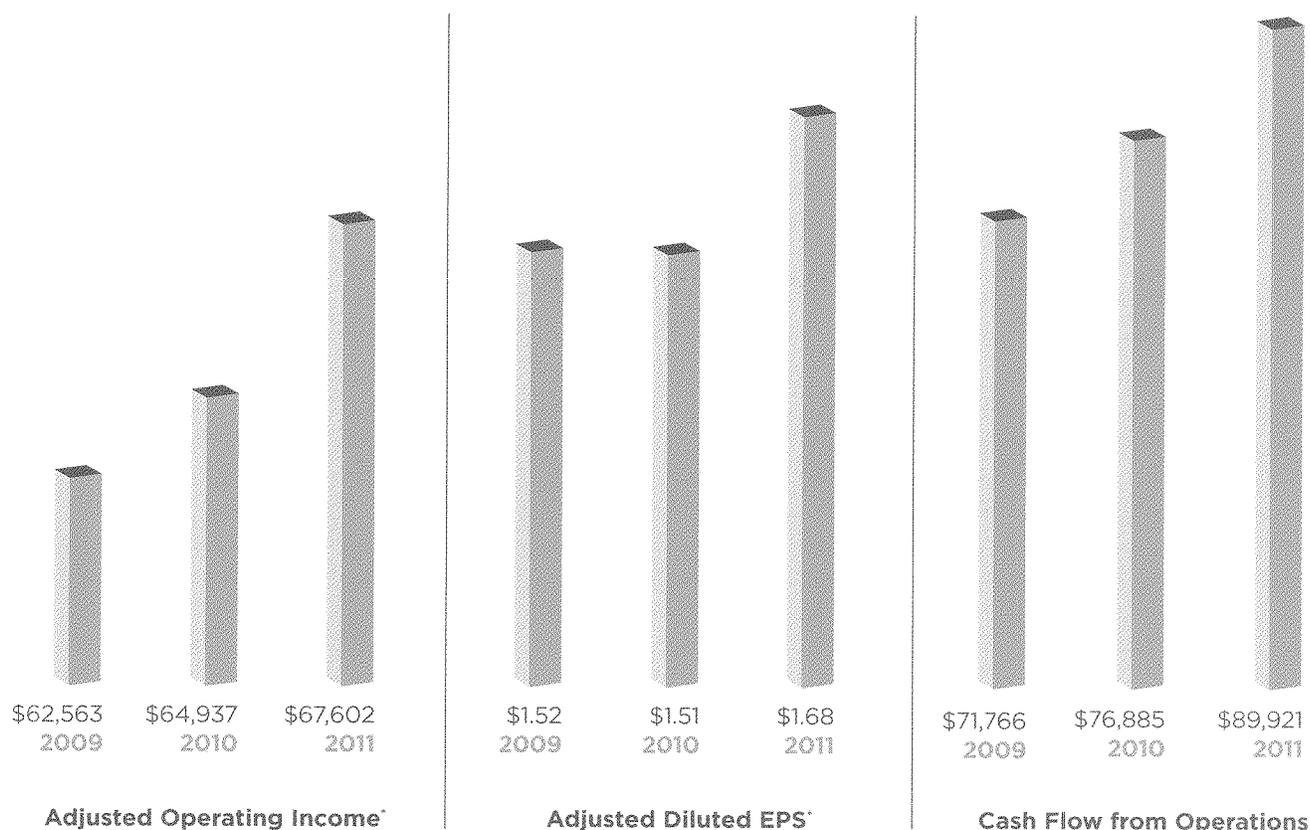
Sincerely,



Thomas J. Hook

# Financial Highlights

(In thousands, except per share data)



Operations					
	2007	2008	2009	2010	2011
<b>Sales</b>	\$ 318,746	\$ 546,644	\$ 521,821	\$ 533,425	\$ 568,822
<b>Operating income</b>	20,020	34,894	1,048	68,994	61,699
<b>Net income (loss)</b>	11,950	14,148	(9,001)	33,138	33,122
<b>Diluted net earnings (loss) per common share</b>	0.53	0.62	(0.39)	1.40	1.40
<b>Diluted weighted average shares outstanding</b>	22,422	22,861	22,926	23,802	23,636

Select Cash Flow and Balance Sheet Data					
	2007	2008	2009	2010	2011
<b>Cash flow from operations</b>	\$ 42,965	\$ 57,101	\$ 71,766	\$ 76,885	\$ 89,921
<b>Working capital</b>	116,816	142,219	119,926	150,922	170,907
<b>Total assets</b>	662,769	848,033	830,543	776,976	881,347
<b>Total debt</b>	195,691	314,384	289,422	220,629	235,950
<b>Total liabilities</b>	311,647	473,242	450,819	350,147	414,064
<b>Total stockholders' equity</b>	351,122	374,791	379,724	426,829	467,283

\* Amounts exclude 1) acquisition related charges, 2) facility consolidation, manufacturing transfer and system integration charges, 3) asset write-down and disposition charges, 4) litigation income/charge, 5) certain R&D charges and 6) the income tax benefit related to these adjustments. See "Financial Overview" in Item 7 of the Form 10-K for a reconciliation of adjusted amounts to GAAP.

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

SEC  
Mail Processing  
Section

APR 23 2012

FORM 10-K

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

Washington DC  
405

For The Fiscal Year Ended December 30, 2011

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.)

10000 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 \$0.001 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 checkmark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The aggregate market value of common stock of Greatbatch, Inc. held by non-affiliates as of July 1, 2011 (last business day of most recently completed second fiscal quarter), based on the last sale price of \$27.23, as reported on the New York Stock Exchange: \$625.8 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 28, 2012: 23,431,594

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following document are specifically incorporated by reference into the indicated parts of this report:

<u>Document</u>	<u>Part</u>
Proxy Statement for the 2012 Annual Meeting of Stockholders	Part III, Item 10 "Directors, Executive Officers and Corporate Governance"
	Part III, Item 11 "Executive Compensation"
	Part III, Item 12 "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters"
	Part III, Item 13 "Certain Relationships and Related Transactions, and Director Independence"
	Part III, Item 14 "Principal Accounting Fees and Services"

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## PART I

### ITEM 1. BUSINESS

#### OVERVIEW

Wilson Greatbatch, co-inventor of the first successful implanted pacemaker, founded Greatbatch in 1970. Greatbatch, Inc. is a Delaware corporation that was incorporated in 1997. When used in this report, the terms “Greatbatch,” “we,” “us,” “our” and the “Company” mean Greatbatch, Inc. and its subsidiaries. The Company had its initial public offering in 2000.

We operate our company in two reportable segments – Greatbatch Medical and Electrochem Solutions (“Electrochem”). Our customers include large multi-national original equipment manufacturers (“OEMs”). The Greatbatch Medical segment designs and manufactures medical devices and components primarily for the Cardiac Rhythm Management (“CRM”), Neuromodulation, Vascular Access and Orthopaedic markets. Additionally, Greatbatch Medical offers value-added assembly and design engineering services for products that incorporate Greatbatch Medical components. As a result of our strategy put in place over three years ago, Greatbatch Medical now offers its customers complete medical devices including design, development, manufacturing, regulatory submission and supporting worldwide distribution. This medical device strategy is being facilitated through the QiG Group and leverages the component technology of Greatbatch Medical and Electrochem in our core markets: Cardiovascular, Neuromodulation and Orthopaedic. Once the QiG Group designs and develops a medical device, it is manufactured by Greatbatch Medical.

Electrochem provides technology solutions where safety, reliability, quality and durability are critical. Electrochem’s customized primary (non-rechargeable) and secondary (rechargeable) battery solutions are used in markets such as energy, portable medical, military, environmental and more. Electrochem’s product lines cover a number of highly-customized battery-powered applications in remote and demanding environments, including down hole drilling tools, military communication devices, automated external defibrillators, oceanographic buoys and more. Electrochem’s primary and secondary power solutions and wireless sensing systems are used in markets where failure is not an option.

Since Greatbatch, Inc. was incorporated, it has completed the following acquisitions either directly or indirectly through one of its subsidiaries:

<b><u>Acquisition Date</u></b>	<b><u>Acquired Company</u></b>	<b><u>Business at Time of Acquisition</u></b>
July 1997	Wilson Greatbatch Ltd.	Founded in 1970, designed and manufactured batteries for implantable medical and commercial applications.
August 1998	Hittman Materials and Medical Components, Inc.	Founded in 1962, designed and manufactured ceramic and glass feedthroughs and specialized porous coatings for electrodes used in IMDs.
August 2000	Battery Engineering, Inc.	Founded in 1983, designed and manufactured high-energy density batteries for industrial, commercial, military and medical applications.

<u>Acquisition Date</u>	<u>Acquired Company</u>	<u>Business at Time of Acquisition</u>
June 2001	Sierra-KD Components division of Maxwell Technologies, Inc.	Founded in 1986, designed and manufactured ceramic electromagnetic filtering capacitors and integrated them with wire feedthroughs for use in IMDs as well as military, aerospace and commercial applications.
July 2002	Globe Tool and Manufacturing Company, Inc.	Founded in 1954, designed and manufactured precision enclosures used in IMDs and commercial products used in the aerospace, electronics and automotive sectors.
March 2004	NanoGram Devices Corporation	Founded in 1996, developed nanoscale materials for battery and medical device applications.
April 2007	BIOMECH, Inc.	Established in 1998, provided medical device design and component integration to early-stage and established customers.
June 2007	Enpath Medical, Inc.	Founded in 1981, designed, developed, and manufactured venous introducers and dilators, implantable leadwires, steerable sheaths and steerable catheters.
October 2007	IntelliSensing LLC	Founded in 2005, designed and manufactured battery-powered wireless sensing solutions for commercial applications.
November 2007	Quan Emerteq LLC	Founded in 1998, designed, developed, and manufactured catheters, stimulation leadwires, microcomponents and assemblies.
November 2007	Engineered Assemblies Corporation	Founded in 1984, designed and integrated custom battery solutions and electronics focused on rechargeable systems for industrial, commercial, military and portable medical applications.
January 2008	P Medical Holding SA	Founded in 1994, designed, manufactured and supplied delivery systems, instruments and implants for the orthopaedic industry.
February 2008	DePuy Orthopaedics' Chaumont, France manufacturing facility	Manufactured hip and shoulder implants for DePuy Orthopaedics.
December 2011	Micro Power Electronics, Inc.	Founded in 1990, designed custom battery packs, smart chargers and power supplies for industrial, military and portable medical applications.

## FINANCIAL STATEMENT YEAR END

We utilize a fifty-two, fifty-three week fiscal year ending on the Friday nearest December 31<sup>st</sup>. Fiscal years 2011, 2010 and 2009 ended on December 30, 2011, December 31, 2010 and January 1, 2010, respectively. Fiscal years 2011, 2010 and 2009 contained fifty-two weeks.

## SEGMENT INFORMATION

We operate our business in two reportable segments – Greatbatch Medical and Electrochem. 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 19 “Business Segment, Geographic and Concentration Risk Information” of the Notes to Consolidated Financial Statements contained in Item 8 of this report.

## GREATBATCH MEDICAL

CRM and Neuromodulation – Component products include batteries, capacitors, filtered and unfiltered feedthroughs, engineered components, implantable stimulation leads and enclosures used in implantable medical devices (“IMD”). Additionally, Greatbatch Medical offers value-added assembly for these IMDs. An IMD is an instrument that is surgically inserted into the body to provide diagnosis and/or therapy. One sector of the IMD market is CRM, which is comprised of devices such as implantable pacemakers, implantable cardioverter defibrillators (“ICD”), cardiac resynchronization therapy (“CRT”) devices, and cardiac resynchronization therapy with backup defibrillation devices (“CRT-D”). Another sector of the IMD market is neuromodulation, which is comprised of pacemaker-type devices that stimulate nerves for the treatment of various conditions. Beyond established therapies of pain control, incontinence and movement disorders (Parkinson’s disease and epilepsy), nerve stimulation for the treatment of other disabilities such as migraines, obesity and depression has shown promising results.

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

<u>Device</u>	<u>Principal Illness or Symptom</u>
Pacemakers .....	Abnormally slow heartbeat (Bradycardia)
ICDs .....	Rapid and irregular heartbeat (Tachycardia)
CRT/CRT-Ds .....	Congestive heart failure
Neurostimulators.....	Chronic pain, movement disorders, epilepsy, obesity or depression
Cochlear hearing devices .....	Hearing loss

IMD systems generally include an implantable pulse generator (“IPG”) and one or more stimulation leads. An IPG is a battery powered device that produces electrical pulses. The lead then carries this electrical pulse from the IPG to the heart, spinal cord or other location in the body. Greatbatch Medical’s portfolio of proprietary technologies, products and capabilities has been built to provide our CRM and Neuromodulation customers with a single source for the vast majority of the components and subassemblies required to manufacture an IPG or lead, to include complete lead systems. Our investments in research and development have generated proprietary products such as the Q<sub>HR</sub><sup>®</sup> Q<sub>MR</sub><sup>®</sup> and Q<sub>Capacitor</sub><sup>®</sup> primary battery and capacitor lines, which have enabled our OEM partners to make improvements in their system offerings in terms of device reliability, size, longevity and power. Greatbatch Medical’s Xcellion<sup>™</sup> line of Lithium-Ion rechargeable batteries leverages decades of implantable battery research, development and manufacturing expertise. This line of cells now includes the optional CoreGuard<sup>™</sup> feature, which enables batteries to discharge to zero volts without performance degradation.

Despite the current global market challenges for this industry, we believe that the CRM and Neuromodulation markets continue to exhibit fundamentals that position Greatbatch Medical for growth.

Increased demand for Greatbatch Medical technologies will continue to be driven by the following factors:

- Advances in medical technology – New therapies will allow physicians to use IMDs to treat a wider range of patients with various diseases.
- Increasing device complexity – Device manufacturers are developing new devices with additional features (such as RF telemetry and MRI conditional capabilities) that will require increased energy, power and filtering capabilities. These new features make Greatbatch Medical technologies and innovations more relevant than ever.
- Expanding patient population – The patient groups that are eligible for CRM devices are increasing and the number of people in the U.S. that are over age 50 is expected to double in the next 10 years. Additionally, fast growing emerging markets, especially in Asia and Latin America, are getting significant attention from IMD manufacturers given their large population size, under-penetration, expanding purchasing power, and increasing expenditure in medical infrastructure and training. When coupled with the non-elective nature of most CRM technologies, these markets represent growth drivers for the Company.
- Growth within neuromodulation – Neuromodulation applications are growing at a faster pace than traditional markets, and are expected to expand as new therapeutic applications are identified. Additionally, core neuromodulation markets - like spinal cord stimulation - that rely significantly on patients for co-pays, are positioned to see stronger growth as global economic markets strengthen. Many CRM OEM companies, which are strategic partners of Greatbatch Medical, are also OEMs in the neuromodulation market, which positions us to capitalize on both drivers of market growth.

Vascular Access – Products include introducers, specialty medical coatings, steerable sheaths and catheters that deliver therapies for many end-user markets including coronary and neurovascular disease, peripheral vascular disease, interventional radiology, vascular access, atrial fibrillation, and interventional cardiology, as well as products for medical imaging and drug and pharmaceutical delivery. Several of these markets are expected to experience significant global growth over the next few years. Introducers enable physicians to create a conduit through which they can insert infusion catheters, implantable ports, pacemaker leads and other therapeutic devices into a blood vessel. A catheter is a tube that can be inserted into a blood vessel to allow drainage, injection of fluids, or access by surgical instruments.

Our products seek to capitalize on the growth in the cardiac, neurology and vascular markets, especially since many of the large CRM OEMs are also in the vascular markets. This gives us an opportunity to develop close strategic partnerships that can be leveraged across markets, an opportunity that will grow in significance as OEMs continue to consolidate their operating divisions. In addition to those factors that are driving the CRM and neuromodulation markets, increased demand is also being driven by continued focus on minimally invasive procedures. Patients and health care providers are looking for minimally invasive technologies to treat disease. They are expanding the use of catheter based procedures and associated vascular therapies. We also continue to see strong growth in the vascular markets because of peripheral-vascular disease therapies and new indications for tissue extraction or ablation.

Orthopaedic – Products include hip and shoulder joint reconstruction implants, bone plates and spinal devices, and instruments and delivery systems used in hip and knee replacement, trauma fixation and spine surgeries. Orthopaedic implants are used in reconstructive surgeries to replace or repair hips, knees and other joints, such as shoulders, ankles and elbows that have deteriorated as a result of disease or

injury. Trauma implant systems are used primarily to reattach or stabilize damaged bone or tissue while the body heals. Spinal implant systems are used by orthopaedic surgeons and neurosurgeons in the treatment of degenerative diseases, deformities and injuries in various regions of the spine.

Each implant system typically has an associated instrument set that is used in the surgical procedure to insert that specific implant system. Instruments included in a set vary by implant system. Usually, instrument sets are sterilized after each use and then reused, however, recent trends are moving towards single use instrumentation. Cases are used to store, transport and arrange implant systems and other medical devices and related surgical instruments. Cases are generally designed to allow for sterilization and re-use after an implant or other surgical procedure is performed. The majority of cases are tailored for specific implant procedures so that the instruments, implants and other devices are arranged within the case to match the order of use in the procedure and are securely held in clearly labeled, custom-formed pockets.

Many of the factors affecting the Orthopaedic market segment are similar to the CRM and Vascular Access markets. These factors include aging population, new implant and surgical technology, rising rates of obesity, a growing replacements market and emerging affluence in developing nations. As a result, we believe that the Orthopaedic market has strong growth fundamentals.

The following table summarizes information about our Greatbatch Medical products:

<b><u>Product</u></b>	<b><u>Description</u></b>	<b><u>Principal Product Attributes</u></b>
Batteries	Lithium iodine (“Li Iodine”) Lithium silver vanadium oxide (“Li SVO”) Lithium carbon monofluoride (“Li CFx”) Lithium ion rechargeable (“Li Ion”) Lithium SVO/CFx (“Q <sub>HR</sub> ” & “Q <sub>MR</sub> ”)	High reliability and predictability Long service life Customized configuration Light weight High energy density, small size
Capacitors	Storage for energy generated by a battery before delivery to the heart. Used in ICDs and CRT-Ds.	Stores more energy per unit volume (energy density) than other existing technologies Customized configuration
EMI filters	Filters electromagnetic interference to limit undesirable response, malfunctioning or degradation in the performance of electronic equipment	High reliability attenuation of EMI RF over wide frequency ranges Customized design
Feedthroughs	Allow electrical signals to be brought from inside hermetically sealed IMD to an electrode	Ceramic to metal seal is substantially more durable than traditional seals Multifunctional
Coated electrodes	Deliver electric signal from the feedthrough to a body part undergoing stimulation	High quality coated surface Flexible in utilizing any combination of biocompatible coating surfaces Customized offering of surfaces and tips

<b><u>Product</u></b>	<b><u>Description</u></b>	<b><u>Principal Product Attributes</u></b>
Precision components	Machined Molded and over molded products	High level of manufacturing precision Broad manufacturing flexibility
Enclosures and related components	Titanium Stainless steel	Precision manufacturing, flexibility in configurations and materials
Value-added assemblies	Combination of multiple components in a single package/unit	Leveraging products and capabilities to provide subassemblies and assemblies  Provides synergies in component technology and procurement systems
Stimulation leads	Cardiac, neuro and hearing restoration stimulation leads	Custom and unique configurations that increase therapy effectiveness, provide finished device design and manufacturing
Introducers	Creates a conduit to insert infusion catheters, guidewires, implantable ports, pacemaker leads and other therapeutic devices into a blood vessel	Variety of sizes and materials that facilitate problem-free access in a variety of clinical applications
Catheters	Delivers therapeutic devices to specific sites in the body	Enable safe, simple delivery of therapeutic and diagnostic devices, soft tip and steerability  Provide regulatory clearance and finished device
Cases and trays	Delivery systems for cleaning and sterilizing orthopaedic instruments and implants	Deliver turn-key full service kits
Implants	Orthopaedic implants for reconstructive hip, knee, shoulder, trauma and spine procedures	Precision manufacturing, leveraging capabilities and products  Complete processes including sterile packaging and coatings
Instruments	Orthopaedic instruments for reconstructive and trauma procedures	Designed to improve surgical techniques, reduce surgery time, increase surgical precision and decrease risk of contamination

A majority of the components and devices Greatbatch Medical sells incorporate proprietary technologies. These proprietary technologies provide an entry barrier for new competitors, and further limit existing competitors from duplicating our products. In addition to these proprietary technologies, our proprietary “know-how” in the manufacture of these products provides further barriers to competition.

QiG Group - As part of the natural evolution of our Company, in 2008, we reassigned 40 Greatbatch Medical engineers to create the QiG Group in order to help facilitate the development of complete medical devices for our customers. In creating QiG, we pooled and focused the tremendous talent, resources and capacity for innovation within our organization. Today, QiG encompasses 130 research and development professionals working in facilities in five states and focused on three compelling therapeutic areas: Cardiovascular, Neuromodulation and, longer-term, Orthopaedics. Additionally, QiG has established relationships with nearly a dozen key physicians who are highly specialized in these areas. These key opinion leaders are helping us to design medical devices from the ground up with features that will meet the needs of today’s practicing clinicians.

Within the QiG Group, we are utilizing a disciplined and diversified portfolio approach with three investment modes—strategic equity investments in start-up companies, OEM customer discrete projects, and incubating new medical devices to be sold or licensed to an OEM partner. The QiG Group employs a disciplined and thorough process for evaluating these opportunities. A scorecard process is utilized to review and select the most strategically valuable ideas to pursue, taking into account a host of variables including the market opportunity, regulatory pathway and reimbursement; market need and market potential; intellectual property and projected financial return.

As a result of the investments we have made, we are now able to provide our customers with complete medical devices. This includes development and regulatory submissions, as well as manufacturing and supporting worldwide distribution. These medical devices are full product solutions that complement our OEM customers’ products and utilize the component expertise and capabilities residing within Greatbatch Medical and Electrochem. The benefits to our OEM customers include shortening the time to market for these devices by accelerating the velocity of innovation, optimizing their supply chain and ultimately providing them with cost efficiencies. Once the QiG Group designs and develops a medical device, it is manufactured by Greatbatch Medical.

## **ELECTROCHEM**

Electrochem provides technology solutions where safety, reliability, quality and durability are of the utmost importance. Our customized primary (non-rechargeable) and secondary (rechargeable) battery solutions are used in a number of critical markets such as energy, portable medical, military, environmental and more. Our product lines cover a vast number of highly-customized battery-powered applications in remote and demanding environments, including down hole drilling tools, military communication devices, automated external defibrillators, oceanographic buoys and more. Electrochem’s primary and secondary power solutions and wireless sensing systems are used in markets where failure is not an option.

Our primary lithium power solutions are utilized in extreme climates and can withstand exceptionally high and low temperatures, along with high shock and vibration. Electrochem’s product designs incorporate protective circuitry, glass-to-metal hermetic seals, fuses and diodes to help ensure safe, durable and reliable power as devices are subjected to these harsh conditions.

Our secondary power solutions comprise a number of chemistries including lithium, nickel and lead acid. These solutions also provide value-adds that complement each power source, including engineering design expertise, advanced electronics, smart charging and battery management systems, to ensure each solution is ready to perform in mission critical and life-saving applications.

As more fully described in Note 2 “Acquisitions” of the Notes to Consolidated Financial Statements contained in Item 8 of this report, Electrochem acquired Micro Power Electronics, Inc. (“Micro Power”) on December 15, 2011. This acquisition is expected to increase Electrochem’s market position in both the primary and secondary engineered battery pack market, including chargers and power supplies. The acquisition increases Electrochem’s emphasis on portable medical and military market verticals, where specialized portable power solutions in high reliability applications are essential.

Electrochem’s unique wireless sensing systems are a complete solution for process industries, incorporating advanced wireless sensors that measure temperature, pressure and flow data, intelligent gateways and customized software. Electrochem’s wireless sensing solutions provide real-time control and monitoring in markets where wired sensors can be hazardous and impractical, as well as industrial environments that possess dirty, remote and extreme environmental conditions. These patented systems utilize Electrochem’s power sources and are used in existing markets such as energy, and new markets such as computer numerical control machining.

The following table summarizes information about our Electrochem products:

<b><u>Product</u></b>	<b><u>Description</u></b>	<b><u>Principal Product Attributes</u></b>
Primary cells	Low-rate Moderate-rate High rate (spiral)	Optimized rate capability, shock and vibration resistant, high and low temperature tolerant, high energy density
Primary and secondary battery packs	Highly-customized pack solutions	Diverse portfolio of cells in various sizes, temperature ranges and rate capabilities, custom-engineered and designed, value-add charging and battery management systems for secondary packs
Wireless sensing systems	Complete solutions measuring temperature, pressure and flow in real-time	Wireless sensors and interactive gateways that withstand the most extreme internal and external industrial environments, provide critical, real-time data delivered directly to a work station

## **RESEARCH AND DEVELOPMENT**

Our position as a leading developer and manufacturer of components for IMDs and Electrochem 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 also engage outside research institutions for unique technology projects. In order to facilitate the development of new and improved medical devices, in 2008 we significantly increased our investments in research and development. Investments in medical device products, which is being facilitated through the QiG Group, totaled \$29 million, \$22 million and \$15 million for 2011, 2010 and 2009, respectively. Further information regarding the QiG Group is set forth under the Greatbatch Medical segment description of this Item 1 and “Product Development” section of Item 7 of this report.

## **PATENTS AND PROPRIETARY TECHNOLOGY**

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. Often, several patents covering various aspects of the design protect a single product. We believe this provides broad protection of the inventions employed.

As of December 30, 2011, we have 484 active U.S. patents and 363 active foreign patents. We also have 256 U.S. and 310 foreign pending patent applications at various stages of approval. During the past three years, we have been granted 143 new U.S. patents, 57 of which were granted in 2011. As a result of the QiG Group’s efforts to develop complete medical devices, the amount of intellectual property being generated by the Company has accelerated as of late. We currently have 86 pending patent applications and 42 patents have been granted to us relating to our medical devices.

We are also a party to several license agreements with third parties under which we have obtained, on varying terms, exclusive or non-exclusive rights to patents held by them. An example of these agreements is for the basic technology used in our wet tantalum capacitors, filtered feedthroughs, biomimetic coatings, safety needles and MRI compatible lead systems. We have also granted rights in our patents to others under license agreements.

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

## **MANUFACTURING AND QUALITY CONTROL**

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

Our facilities in Alden, NY, and Minneapolis, MN are certified under the International Organization for Standardization (“ISO”): 9001 quality system standard, which requires compliance with regulations regarding product design (where applicable), supplier control, manufacturing processes and component quality. This certification can only be achieved after completion of an audit conducted by an independent authority followed by periodic inspections to maintain this certification.

The quality systems of our manufacturing facilities in Tijuana, Mexico, Plymouth, MN, Clarence, NY, Chaumont, France, Orvin, Switzerland, Columbia City, IN, Indianapolis, IN and Raynham, MA are certified under the ISO: 13485 quality system standard, which requires, among other things, an implemented quality system that applies to the design (where applicable) and manufacture of components, assemblies and finished medical devices, including component quality and supplier control. Along with ISO: 13485, the facilities (where applicable) are subject to regulation by numerous regulatory bodies, including the Food and Drug Administration (“FDA”) and comparable international regulatory agencies in order to ship product worldwide.

We are required to register with the FDA as a device manufacturer and as a result, we are subject to periodic inspection by the FDA for compliance with their Quality System Regulation (“QSR”) requirements. Compliance with applicable regulatory requirements is subject to continual review and is rigorously monitored through periodic inspections by the FDA. In the European Community, we are required to maintain certain ISO certifications in order to sell products, and we undergo periodic inspections by notified bodies to obtain and maintain these certifications. Maintaining these certifications gives us the ability to serve as a manufacturing partner to medical device manufacturers, which we believe will improve our competitive position. Our Plymouth, MN, Columbia City, IN, Indianapolis, IN, Orvin, Switzerland and Chaumont, France facilities are registered with the FDA.

## **SALES AND MARKETING**

Products from our Greatbatch Medical business are sold directly to our customers. In our Electrochem business, we utilize a combination of direct and indirect sales methods, depending on the particular product. In 2011, approximately 45% of our products were sold in the U.S. Sales outside the U.S. are primarily to customers whose corporate offices are located and headquartered in the U.S. Information regarding our sales by geographic area is set forth at Note 19 “Business Segment, Geographic and Concentration Risk Information” of the Notes to Consolidated Financial Statements contained in Item 8 of this report.

Although the majority of our medical customers contract with us to develop custom components and assemblies to fit their product specifications, we also provide system and device solutions ready for market distribution by OEMs. 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. For system and device solutions, we partner with our customers’ research, marketing, and clinical groups to jointly develop technology platforms in alignment with their product roadmaps and therapy needs.

Electrochem utilizes a direct and indirect selling model to end users and OEMs. Additionally, we have a small number of strategic partner organizations, which enable us to sell into markets where language or geographical barriers are present. We leverage our strategic account managers with appropriate support from engineering, to design and sell product solutions into our targeted markets. Our strategic account managers are trained to assist our customers in selecting appropriate chemistries and configurations. We market our products and services through well-defined selling strategies and marketing campaigns that are customized for each of the industries we target.

Firm backlog orders at December 30, 2011 and December 31, 2010 were approximately \$191 million and \$159 million, respectively. The majority of the orders outstanding at December 30, 2011 are expected to be shipped within one year.

## **CUSTOMERS**

Our Greatbatch Medical customers include large multi-national OEMs and their affiliated subsidiaries such as, in alphabetical order here and throughout this report, Biotronik, Boston Scientific, Johnson & Johnson, Medtronic, Smith & Nephew, Sorin Group, St. Jude Medical, Stryker and Zimmer. During 2011, 2010, and 2009, Boston Scientific, Johnson & Johnson, Medtronic and St. Jude Medical collectively accounted for 59%, 62% and 63% of our total sales, respectively. The Company has been successful in leveraging our diversified product line to further penetrate these customers and selling into more of their operating divisions, which cover the CRM, Neuromodulation, Vascular Access and Orthopaedic markets.

The nature and extent of our selling relationship with each OEM customer is different in terms of products purchased, selling prices, product volumes, ordering patterns and inventory management. For customers with long-term contracts, we have negotiated fixed pricing arrangements for pre-determined volume levels with pricing fixed at each level. In general, the higher the volume level, the lower the pricing. We have pricing arrangements with our customers that at times do not specify minimum order quantities. We recognize revenue when it is realized or realizable and earned. This occurs when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, the buyer is obligated to pay us (i.e., not contingent on a future event), the risk of loss is transferred, there is no obligation of future performance, collectability is reasonably assured and the amount of future returns can reasonably be estimated. Those criteria are met at the time of shipment when title passes.

Our visibility to customer ordering patterns is over a relatively short period of time. Our customers may have inventory management programs, vertical integration plans and/or alternate supply arrangements which we are unaware of. Additionally, the relative market share among the OEM manufacturers changes periodically. Consequently, these and other factors can significantly impact our sales in any given period. Our customers may initiate field actions with respect to market-released products. These actions may include product recalls or communications with a significant number of physicians about a product or labeling issue. The scope of such actions can range from very minor issues affecting a small number of units to more significant actions. There are a number of factors, both short-term and long-term, related to these field actions that may impact our results. In the short-term, if a product has to be replaced, or customer inventory levels have to be restored, demand will increase. Also, changing customer order patterns due to market share shifts or accelerated device replacements may also have a positive or negative impact on our sales results in the near-term. These same factors may have longer-term implications as well. Customer inventory levels may ultimately have to be rebalanced to match new demand.

Our Electrochem customers are primarily companies involved in demanding markets where highly sophisticated power solutions or wireless sensing needs exist, such as energy, portable medical, military and environmental monitoring. Some of our larger OEM customers include General Electric, Halliburton Company, Scripps Institution of Oceanography, Thales, Weatherford International and Zoll Medical Corp.

## **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 both internally and with our customers. We cannot quickly establish additional or replacement suppliers for these materials because of these rigid requirements. For these critical raw materials, we maintain minimum safety stock levels and contractually partner with suppliers to help ensure the continuity of supply. Historically, we have not experienced any significant interruptions or delays in obtaining critical raw materials.

For non-critical 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 these non-critical raw materials.

## **COMPETITION**

Existing and potential competitors in our Greatbatch Medical business include leading IMD manufacturers such as Biotronik, Boston Scientific, Johnson & Johnson, Medtronic, Smith & Nephew, Sorin Group, St. Jude Medical, Stryker and Zimmer 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. Competition for Electrochem varies and is dependent on the targeted industry. Our known non-vertically integrated competitors include the following:

<b><u>Product Line</u></b>	<b><u>Competitors</u></b>
<u>Greatbatch Medical</u> Medical batteries	Eagle-Picher Quallion
Capacitors	Critical Medical Components
Feedthroughs	Alberox (subsidiary of The Morgan Crucible Co. PLC)
EMI filtering	AVX (subsidiary of Kyocera) Eurofarad
Enclosures	Heraeus Hudson National
Machined and molded components	Numerous
Value added assembly	Numerous
Catheters	Creganna Teleflex
Introducers	Pressure Products Thomas Medical
Stimulation leads	Oscor
Orthopaedic trays, instruments and implants	Accelent Avalign Technologies IMDS Micropulse, Inc. Norwood Medical Orchid

**Product Line****Competitors**

Orthopaedic trays,  
instruments and implants  
(con't)

Sandvik  
Symmetry  
Paragon  
Teleflex

**Electrochem**

Primary Power Solutions

Tracer Technologies, Engineered Power, Saft, Ultralife

Secondary Power Solutions

ICC, Nexergy, Ultralife, Saft

Wireless Sensing Solutions

Vektec

**GOVERNMENT REGULATION**

Except as described below, our business is not subject to direct governmental regulation other than the laws and regulations generally applicable to all businesses in the jurisdictions in which we operate. We are subject to federal, state and local environmental laws and regulations governing the emission, discharge, use, storage and disposal of hazardous materials and the remediation of contamination associated with the release of these materials at our facilities and at off-site disposal locations. Our manufacturing and research, development and engineering activities may involve the controlled use of small amounts of hazardous materials. Liabilities associated with hazardous material releases arise principally under the Federal Comprehensive Environmental Response, Compensation and Liability Act and analogous state laws that impose strict, joint and several liabilities 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 may, however, become subject to these environmental liabilities in the future as a result of our historic or current operations.

Our products are subject to regulation by numerous government agencies, including the FDA and comparable foreign agencies. For some of our component technology, we have “master files” on record with the FDA. Master files may be used to provide proprietary and confidential detailed information about technology, facilities, processes, or articles used in the manufacturing, processing, packaging and storing of one or more medical device components. These master files for devices may be used by device manufacturers to support their premarket approval application (“PMA”), investigational device exemption application (“IDE”) or premarket notification (“510(k”).

In the U.S., our introducer and delivery catheter products are considered Class II devices. The 510(k) process requires us to demonstrate that our new medical devices are substantially equivalent to a legally marketed medical device. In order to support a substantial equivalence claim, we must submit supporting data. In Europe, these devices are considered Class IIa and Class III, respectively, under European Medical Device Directives. These Directives require companies that wish to manufacture and distribute medical devices in European Union member countries to obtain a CE Marking for those products, which indicate that the products meet minimum standards of performance, essential requirements, safety conformity assessment and quality.

The PMA process is a more rigorous process that is required to demonstrate that a new medical device is safe and effective. This is demonstrated by generating data regarding the design, manufacturing processes, materials, bench testing, and animal testing and typically requiring human clinical data. Some of our products

that we are developing are Class III medical devices that require a PMA or, in the European Union, premarket approval through submission of a Design Dossier.

In 2010, Greatbatch Medical received clearance from the FDA for its OptiSeal Valved Peelable Introducer. We also received approval in Canada and CE Marking for distribution in Europe. OptiSeal is significant in that it represents the first 510(k) regulatory clearance received under the Greatbatch Medical brand and is the first product commercialized in connection with our systems and device strategy.

During the first quarter of 2012, we received FDA 510(k) clearance on our transradial catheter sheath introducer and steerable delivery sheath for AF ablation.

As a manufacturer of medical devices and components that go into medical devices, we are also subject to periodic inspection by the FDA for compliance with the FDA's Quality System Requirements and the applicable notified body in the European Union to ensure conformity to the Medical Device Directives and Active Implantable Medical Device Directives. We believe that our quality controls, development, testing, manufacturing, labeling, marketing and distribution of our medical devices conform to the requirements of all pertinent regulations. During 2011, our Greatbatch Medical facility in Chaumont, France was successfully inspected by the FDA without any Form 483 observations issued.

Our sales and marketing practices are subject to regulation by the U.S. Department of Health and Human Services pursuant to federal anti-kickback laws, and are also subject to similar state laws.

We are also subject to various other environmental, transportation and labor laws as well as various other directives and regulations both in the U.S. and abroad. We believe that compliance with these laws will not have a material impact on our capital expenditures, earnings or competitive position. Given the scope and nature of these laws, however, they may have a material impact on our operational results in the future. We assess potential product related liabilities on a quarterly basis. At present, we are not aware of any such liabilities that would have a material impact on our business.

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act (collectively "Health Care Reform") legislating broad-based changes to the U.S. health care system. Health Care Reform could significantly impact our business operations and financial results, including increasing or decreasing revenue, as well as increasing employee medical costs and taxes.

Health Care Reform imposes significant new taxes on OEMs, which will result in a significant increase in the tax burden on our industry and which could have a material, negative impact on our results of operations and our cash flows. Other elements of Health Care Reform such as comparative effectiveness research, an independent payment advisory board, payment system reforms including shared savings pilots and other provisions could meaningfully change the way healthcare is developed and delivered, and may materially impact numerous aspects of our business, results of operations and financial condition.

Many significant parts of Health Care Reform will be phased in over the next seven years and require further guidance and clarification in the form of regulations. As a result, many of the impacts of Health Care Reform will not be known until those regulations are enacted, which we expect to occur over the next several years.

Since January 2010, there have been various actions by the U.S. Congress and the U.S. Department of Transportation, Pipeline and Hazardous Materials Safety Administration to amend requirements in the hazardous materials regulations on the transportation of lithium cells and batteries, including lithium cells and batteries packed or contained in equipment. If enacted, these actions could have negatively impacted our results of operations in the form of increased compliance costs for our lithium batteries. On February 14, 2012, President Obama signed into law the Federal Aviation Administration Modernization and Reform Act, which reconciles the nation's standards with global rules on the air shipment of lithium batteries, except for narrow exceptions. As a result of this legislation, we do not expect that any future U.S. legislative or administrative actions regarding the transportation of lithium cells and batteries will materially impact our results of operations, unless current global standards are revised.

On December 15, 2010, the U.S. Securities and Exchange Commission ("SEC") issued a proposed rule under Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Section 1502 relates to reporting requirements regarding conflict minerals originating in the Democratic Republic of the Congo and adjoining countries. Under the proposed rule, issuers would be required to perform a "reasonable" due-diligence process to ascertain whether conflict minerals are necessary to the functionality or production of their manufactured or contracted to be manufactured products. If conflict minerals are used, the issuer would be required to make certain disclosures in its annual report on Form 10-K. We would incur additional, new compliance costs if the proposed rule is adopted since our Greatbatch Medical business utilizes some of the minerals specified in the proposed rule.

## **RECRUITING AND TRAINING**

We invest substantial resources in our recruiting efforts to focus on a quality workforce that will support our business objectives. Our goal is to provide our associates with growth opportunities by attempting to fill more than half of our open employment positions internally. We further meet our hiring needs through outside sources, as required. We have an active succession planning process including a comprehensive development program in place for senior management in order to ensure we are able to implement our strategic plan.

We provide training for our associates designed to educate them on safety, quality, business strategy, and our-culture. Our safety training programs educate associates on basic industrial safety practices while emphasizing the importance of knowing emergency response procedures. Our training programs focus on the methodologies and technical competencies required to support current and future business needs with a strong focus on quality and continuous improvement.

Supporting our commitment to learning, we offer our associates tuition reimbursement and encourage them to continue their education at accredited colleges and universities. We have established a number of programs designed to challenge and motivate our associates specifically encouraging continuous improvement, supervisory and leadership skills. We believe ongoing development is necessary to ensure our associates utilize best practices, and share a common understanding of work practices and performance expectations.

## EMPLOYEES

The following table provides a breakdown of employees as of December 30, 2011:

Manufacturing	1,621
General and administrative	121
Sales and marketing	65
Research, development and engineering	296
Chaumont, France facility	236
Switzerland facilities	231
Tijuana, Mexico facility	701
Total	<u>3,271</u>

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 at our Chaumont, France and Tijuana, Mexico facilities are represented by a union. Approximately 171 and 230 positions at our Switzerland and France locations, respectively, are manufacturing in nature. The positions at our Tijuana, Mexico facility are primarily manufacturing. Approximately 192 positions were added as a result of our acquisition of Micro Power of which approximately 118 positions are manufacturing in nature. We believe that we have a good relationship with our employees.

## EXECUTIVE OFFICERS OF THE COMPANY

Information concerning our executive officers is presented below as of February 28, 2012. The officers' terms of office run from year to year until the first meeting of the Board of Directors after our Annual Meeting of Stockholders, which meeting takes place immediately following our Annual Meeting of Stockholders, and until their successors are elected and qualified, except in the case of earlier death, retirement, resignation or removal.

**Mauricio Arellano**, age 45, is President of our Greatbatch Medical segment, and has served in that office since December 2010. He served as Senior Vice President and Business Leader of our Cardiac and Neurology Group from October 2008 until December 2010, Senior Vice President and Business Leader of our CRM and Neuromodulation Group from January 2008 to October 2008, Senior Vice President and Business Leader of our Medical Solutions Group from November 2006 to January 2008, and as Vice President of Greatbatch Mexico from January 2005 to November 2006. Mr. Arellano joined our Company in October 2003 as the Plant Manager of our former Carson City, NV facility. Prior to joining our Company, he served in a variety of human resources and operational roles with Tyco Healthcare – Especialidades Medicas Kenmex and with Sony de Tijuana Este.

**Susan M. Bratton**, age 55, is Senior Vice President and Business Leader for our Electrochem segment, and has served in that office since January 2005. She served as Vice President of Corporate Quality from March 2001 to January 2005, as General Manager of our Electrochem Division from July 1998 to March 2001 and as Director of Procurement from June 1991 to July 1998. Ms. Bratton has held various other positions with our Company since joining us in 1976.

**Michelle Graham**, age 45, is Senior Vice President for Human Resources, and has served in that office since joining our Company in December 2010. From 2005 until December 2010, she held a number of senior human resources positions at Bausch & Lomb, most recently as Vice President of Human Resources for its Global Vision Care division.

**Thomas J. Hook**, age 49, has served as our President & Chief Executive Officer since August 2006. Prior to August 2006, he was our Chief Operating Officer, a position he assumed upon joining our Company in September 2004. From August 2002 until September 2004, Mr. Hook was employed by CTI Molecular Imaging where he had served as President, CTI Solutions Group.

**Thomas J. Mazza**, age 58, is Senior Vice President & Chief Financial Officer, and has served in that office since August 2005. He joined our Company in November 2003 as Vice President and Corporate Controller. Prior to that, Mr. Mazza served in a variety of financial roles with Foster Wheeler Ltd., including Vice President and Corporate Controller.

**Timothy G. McEvoy**, age 54, is Vice President, General Counsel & Secretary, and has served in that office since joining our Company in February 2007. From 1992 until January 2007, he was employed in a variety of legal roles by Manufacturers and Traders Trust Company.

### **AVAILABLE INFORMATION**

We make available free of charge 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 SEC. 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. These items may also be obtained free of charge by written request made to Christopher J. Thome, Director of External Reporting and Investor Relations, Greatbatch, Inc., 10000 Wehrle Drive, Clarence, New York 14031.

### **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, and these statements are subject to known and unknown risks, uncertainties and assumptions. Forward-looking statements include statements relating to:

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

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

Although it is not possible to create a comprehensive list of all factors that may cause actual results to differ from the results expressed or implied by our forward-looking statements or that may affect our future results, some of these factors include the following: our dependence upon a limited number of customers; customer ordering patterns; product obsolescence; our inability to market current or future products; pricing pressure from customers; our ability to timely and successfully implement cost reduction and plant consolidation initiatives; our reliance on third party suppliers for raw materials, products and subcomponents; fluctuating operating results; our inability to maintain high quality standards for our products; challenges to our intellectual property rights; product liability claims; our inability to successfully consummate and integrate acquisitions and to realize synergies and to operate these acquired businesses in accordance with expectations; our unsuccessful expansion into new markets; our failure to develop new products including system and device products; our inability to obtain licenses to key technology; regulatory changes or consolidation in the healthcare industry; global economic factors including currency exchange rates and interest rates; the resolution of various legal actions brought against the Company; and other risks and uncertainties that arise from time to time and are described in Item 1A “Risk Factors” of this report.

## **ITEM 1A. RISK FACTORS.**

Our business faces many risks. Any of the risks discussed below, or elsewhere in this report or in our other SEC filings, could have a material impact on our business, financial condition or results of operations.

### **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.**

In 2011, Boston Scientific, Johnson & Johnson, Medtronic and St. Jude Medical, collectively accounted for approximately 59% of our revenues. Our supply agreements with these customers may 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 experience rapid technological changes, 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 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 and commercial products has been growing in recent years. If the market for our products does not grow as forecasted by industry experts, our revenues could be less than expected. In addition, it is difficult to predict the rate at which the market for our products will grow or at which new and increased competition will result in market saturation. Slower growth in the CRM,

Orthopaedic, Vascular Access or Energy markets in particular would negatively impact our revenues. In addition, we face the risk that our products will lose widespread market acceptance. Our customers may not continue to utilize the products we offer and a market may not develop for our future products.

We may at times determine that it is not technically or economically feasible for us to continue to manufacture certain products and we may not be successful in developing or marketing them. Additionally, new technologies that we develop may not be rapidly accepted because of industry-specific factors, including the need for regulatory clearance, entrenched patterns of clinical practice and uncertainty over third party reimbursement. If this occurs, our business will be harmed and our operating results will be negatively affected.

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

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

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

Our business depends on a continuous supply of raw materials. The principal raw materials used in our business include lithium, iodine, tantalum, platinum, ruthenium, gallium trichloride, tantalum pellets, vanadium pentoxide, iridium, and titanium. The supply and price of these raw materials are susceptible to fluctuations due to transportation, government regulations, price controls, economic climate or other unforeseen circumstances. Increasing global demand for these raw materials has caused 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. We may not be able to continue to procure raw materials critical to our business or to procure them at acceptable price levels.

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

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

At December 30, 2011, we had \$459.2 million of intangible assets, representing 52% of our total assets. These intangible assets consist primarily of goodwill, trademarks, tradenames, customer lists and patented technology arising from our acquisitions. Goodwill and other intangible assets with indefinite lives are not amortized, but are tested annually or upon the occurrence of certain events which indicate that the assets may be impaired. Definite lived intangible assets are amortized over their estimated useful lives and are tested for impairment upon the occurrence of certain events which 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. In the event of such a charge to earnings, the market price of our common stock could be affected. In addition, intangible assets with definite lives, which represent \$100.3 million of our net intangible assets at December 30, 2011, will continue to be amortized. We incurred total amortization expenses relating to these intangible assets of \$10.5 million in 2011. These expenses will reduce our future earnings or increase our future losses.

**Quality problems with our products could harm our reputation for producing high quality products and erode our competitive advantage.**

Our products are held to high quality and performance standards. In the event our products fail to meet these standards, our reputation could be harmed, which could damage our competitive advantage and result in lower revenues.

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

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

**Regulatory issues resulting from product complaints, or recalls, or regulatory audits could harm our ability to produce and supply products or bring new products to market.**

Our products are designed, manufactured and distributed globally in compliance with all applicable regulations and standards. However, a product complaint, recall or negative regulatory audit may cause products to be removed from the market and harm our operating results or financial condition. In addition, during the period in which corrective action is being taken by us to remedy a complaint, recall or negative audit, regulators may not allow new products to be cleared for marketing and sale.

**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 arise from failure to meet product specifications, misuse or malfunction, or design flaws, 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 electrical performance, longevity and other specifications, but the actual performance of those products is dependent on how they are utilized as part of the customers' devices over the lifetime of the products. Product performance and device interaction from time to time have been, and may in the future be, different than expected for a number of reasons. Consequently, it is possible that customers may experience problems with their medical devices that could require device recall or other corrective action, where our batteries met the specification at delivery, and for reasons that are not related primarily or at all to any failure by our product to perform in accordance with specifications. It is possible that our customers (or end-users) may in the future assert that our products caused or contributed to device failure. 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 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 and require us to pay significant damages. The occurrence of product liability claims or product recalls could affect our operating results and financial condition.

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

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

Our operating results have fluctuated in the past and are likely to fluctuate significantly from quarter to quarter due to a variety of factors, including the following:

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

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

We rely on a combination of patents, licenses, trade secrets and know-how to establish and protect our rights to our technologies and products. As of December 30, 2011, we held 484 active U.S. patents and 363 active foreign patents. However, the steps we have taken and will take in the future to protect our 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 may be breached and if breached, there may be no adequate remedy available to us and we may be unable to prevent the unauthorized disclosure or use of our technical knowledge, practices and/or procedures. If our trade secrets become known, we may lose our competitive advantages. Additionally, as patents and other intellectual property protection expire we may lose our competitive advantage.

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

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

In producing our products, third parties may claim that we are infringing on their intellectual property rights, and we may be found to have infringed those intellectual property rights. We may be unaware of intellectual property rights of others that may be used in our technology and products. In addition, third parties may claim that our patents have been improperly granted and may seek to invalidate our existing

or future patents. If any claim for invalidation prevailed, the result could be greatly expanded opportunities for third parties to manufacture and sell products that compete with our products and our revenues from any related license agreements would decrease accordingly. We also typically do not receive significant indemnification from parties that license technology to us against third party claims of intellectual property infringement.

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

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

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

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

Our acquisitions have increased the size and scope of our operations, and may place a strain on our managerial, operational and financial resources and systems. Any failure by us to manage this growth and successfully integrate these acquisitions could harm our business and our financial condition and results.

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

One facet of our growth 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 may 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.

**Accidents at any of our facilities could delay production and affect our operations.**

Our business involves complex manufacturing processes and hazardous materials that can be dangerous to our employees. Although we employ safety procedures in the design and operation of our facilities, there is a risk that an accident or death could occur. Any accident, such as a chemical spill or fire, 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 harm our financial condition or operating results. Any disruption of operations at any of our facilities could harm our business.

**We may face competition 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 medical products may intensify in the future. One or more of our medical 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 us. These and other companies may develop products that are superior to ours, which could result in lower revenues and operating results.

**We intend to develop new products and expand into new markets, which may not be successful and could harm our operating results.**

We intend to expand into new markets and develop new and modified products based on our existing technologies and engineering capabilities, including the development of complete medical devices. 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. Additionally, many of the new products we are working on take longer and more resources to develop and commercialize, including obtaining regulatory approval.

Specific risks in connection with expanding into new products and markets include: longer product development cycles, the inability to transfer our quality standards and technology into new products, the failure to receive regulatory approval for new products or modifications to existing products, and the failure of our customers to accept the new or modified products.

**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. 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.

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

Our sales outside the U.S., which accounted for 55% of sales for 2011, and our operations in Mexico, Switzerland and France, are and will continue to be subject to a number of risks and potential costs, including:

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

We earn revenue and incur expenses related to our foreign sales and 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.

**The current economic environment and credit market uncertainty could interrupt our access to capital markets, borrowings, or financial transactions to hedge certain risks, which could affect our financial condition.**

As of December 30, 2011, we had \$236.0 million of long-term debt, including our convertible subordinated notes and revolving line of credit, which mature in 2013 and 2016, respectively. These facilities have allowed us to make investments in growth opportunities and fund working capital requirements. In addition, we enter into financial transactions to hedge certain risks, including foreign exchange and interest rate risk. Our continued access to capital markets, the stability of our lenders and their willingness to support our needs, and the stability of the parties to our financial transactions that hedge risks are essential for us to meet our current and long-term obligations, fund operations, and fund our strategic initiatives. An interruption in our access to external financing or financial transactions to hedge risk could affect our business prospects and financial condition.

**The failure of our information technology systems to perform as anticipated could disrupt our business affect our financial condition.**

The efficient operation of our business is dependent on our information technology (“IT”) systems. Accordingly, we rely upon the capacity, reliability and security of our IT hardware and software infrastructure and our ability to expand and update this infrastructure in response to our changing needs. Despite our implementation of security measures, our systems are vulnerable to damages from computer viruses, natural disasters, incursions by intruders or hackers, failures in hardware or software, power

fluctuations, cyber terrorists and other similar disruptions. The failure of our IT systems to perform as anticipated for any reason or any significant breach of security could disrupt our business and result in numerous consequences, including reduced effectiveness and efficiency of operations, inappropriate disclosure of confidential information, increased overhead costs and loss of important information, which could have a material effect on our business and results of operations. In addition, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

## **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 FDA and similar governmental agencies. These regulations cover 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 affect our ability to sell our products. This may result in higher than anticipated costs or lower than anticipated revenues.

Regulations issued in the healthcare industry 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. Our failure 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.

In response to perceived increases in health care costs in recent years, there have been and continue to be proposals by the Obama administration, members of Congress, state governments, regulators and third-party payors to control these costs and, more generally, to reform the U.S. healthcare system. The 2010 Health Care Reform Act imposes significant new taxes on OEMs, which will result in a significant increase in the tax burden on our industry and which could have a material, negative impact on our results of operations and our cash flows. Other elements of Health Care Reform such as comparative effectiveness research, an independent payment advisory board, payment system reforms including shared savings pilots and other provisions could meaningfully change the way healthcare is developed and delivered, and may materially impact numerous aspects of our business, results of operations and financial condition.

Many significant parts of Health Care Reform will be phased in over time and require further guidance and clarification in the form of regulations. As a result, many of the impacts of Health Care Reform will not be known until those regulations are enacted, which we expect to occur over the next several years.

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

Federal, state and local regulations impose various environmental controls on the manufacturing, transportation, storage, use and disposal of batteries and hazardous chemicals and other materials used in, and hazardous waste produced by, the manufacturing of our products. 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 products or restricting disposal or transportation of batteries may be imposed that may result in higher costs or lower operating results. In addition, we cannot predict the effect that additional or modified environmental regulations may have on us or our customers.

**Consolidation in the healthcare industry could result in greater competition and reduce our 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, our revenues would decrease and our operating results would suffer.

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

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

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

Sales of our Electrochem products depend to a great extent upon the condition of the oil and gas industry. 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, 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. A 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 Electrochem revenues to decline.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## ITEM 2. PROPERTIES

The following table sets forth information about our significant facilities as of December 30, 2011:

<u>Location</u>	<u>Sq. Ft.</u>	<u>Own/Lease</u>	<u>Principal Use</u>
Alden, NY.....	125,000	Own	Medical battery and capacitor manufacturing
Beaverton, OR .....	62,200	Lease	Commercial battery manufacturing
Blaine, MN .....	32,400	Own	Medical device engineering
Chaumont, France.....	59,200	Own	Manufacturing of orthopaedic and surgical goods
Clarence, NY .....	117,800	Own	Corporate offices and RD&E
Clarence, NY .....	20,800	Own	Machining and assembly of components
Clarence, NY .....	18,600	Lease	Machining and assembly of components
Cleveland, OH .....	16,900	Lease	Office and lab space for design engineering team
Columbia City, IN .....	40,000	Lease	Manufacturing of orthopaedic and surgical goods
Corgemont, Switzerland ..	34,400	Lease	Manufacturing of orthopaedic and surgical goods
Indianapolis, IN .....	82,600	Own	Manufacturing of orthopaedic and surgical goods
Minneapolis, MN.....	72,000	Own	Enclosure manufacturing and engineering
Orvin, Switzerland.....	40,400	Own	Manufacturing of orthopaedic and surgical goods
Plymouth, MN .....	95,700	Lease	Introducers, catheters and leads manufacturing
Raynham, MA.....	81,000	Own	Commercial battery manufacturing and RD&E
Tijuana, Mexico.....	144,000	Lease	Value-added assembly, and feedthrough, electrode and EMI filtering manufacturing
Warsaw, IN.....	3,000	Lease	Orthopaedic rapid prototyping design center

In 2011, we began construction on an 80,000 square foot manufacturing facility in Allen County, IN., which is expected to be completed by mid-2012. In 2011, we also initiated a multi-faceted plan to further enhance, optimize and leverage our Orthopaedics operations. This plan includes the opening of two Orthopaedic design centers, transferring production of certain Orthopaedic product lines to other lower cost manufacturing facilities and the consolidation of our Orthopaedic operations in Switzerland into a new facility. These initiatives are expected to be completed over the next two to three years. Total capital investment under these initiatives is expected to be between \$50 million and \$60 million of which approximately \$13 million has been incurred to date.

Near the end of 2011, we initiated plans to upgrade and expand our manufacturing infrastructure in order to support our medical device strategy. This will include expansion of two of our existing facilities, the purchase of equipment, as well as the transfer of certain product lines to create additional capacity for the manufacture of medical devices. These initiatives are expected to be completed over the next two to three years. Total capital investment under these initiatives is expected to be between \$15 million to \$20 million of which approximately \$1 million has been incurred to date.

## ITEM 3. LEGAL PROCEEDINGS

We are party to various legal actions arising in the normal course of business. A description of pending legal actions against the Company is set forth at Note 14 "Commitments and Contingencies" of the Notes to Consolidated Financial Statements contained in Item 8 of this report. We do not believe that the ultimate resolution of any pending legal actions will have a material effect on our consolidated results of operations, financial position or cash flows. However, litigation is subject to inherent uncertainties. If an unfavorable ruling(s) were to occur, there exists the possibility of a material impact in the period in which the ruling occurs and beyond.

#### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

#### PART II

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

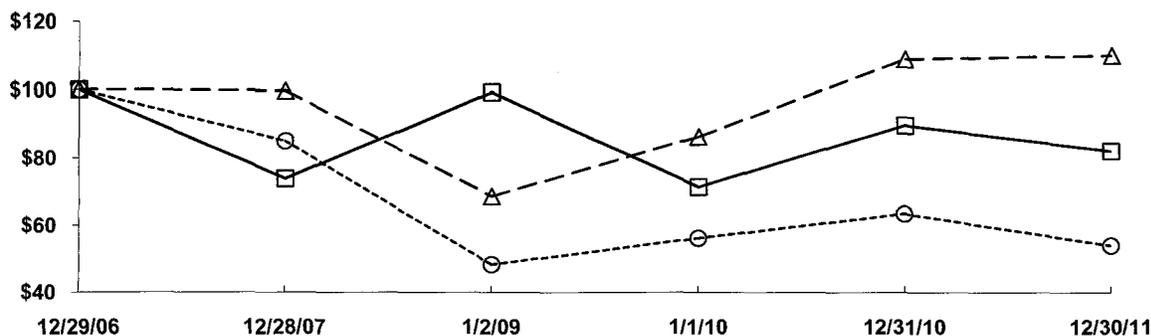
The Company's common stock trades on the New York Stock Exchange ("NYSE") under the symbol "GB." The following table sets forth information on our common stock as reported by the NYSE:

	<u>High</u>	<u>Low</u>	<u>Close</u>
<b>2010</b>			
First Quarter	\$21.69	\$18.99	\$20.90
Second Quarter	24.43	19.94	22.00
Third Quarter	24.00	21.35	22.84
Fourth Quarter	25.11	21.61	24.15
<b>2011</b>			
First Quarter	\$26.92	\$22.91	\$26.12
Second Quarter	29.06	25.20	27.23
Third Quarter	28.33	18.55	20.01
Fourth Quarter	23.10	18.78	22.10

As of February 28, 2012, there were approximately 170 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 is approximately 1,300 active and former employees' holding Company stock in the 401(k) plan. We have not paid cash dividends and currently intend to retain any earnings to further develop and grow our business.

#### PERFORMANCE GRAPH

The following graph compares, for the five year period ended December 30, 2011, 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 150 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, 2006 and assumes reinvestment of dividends. The stock price performance shown on the following graph is not necessarily indicative of future price performance:



—■— Greatbatch, Inc.      -▲- S&P Smallcap 600 Index      ---○--- Hemscott Peer Group Index

## ITEM 6. SELECTED FINANCIAL DATA

The following table provides selected financial data 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 (in thousands, except per share amounts):

	Years Ended				
	Dec. 30, 2011 <sup>(1)(2)</sup>	Dec. 31, 2010 <sup>(2)(4)</sup>	Jan. 1, 2010 <sup>(2)(4)</sup>	Jan. 2, 2009 <sup>(2)(3)</sup>	Dec. 28, 2007 <sup>(2)(3)</sup>
<u>Statement of Operations Data:</u>					
Sales	\$ 568,822	\$ 533,425	\$ 521,821	\$ 546,644	\$ 318,746
Net income (loss)	33,122	33,138	(9,001)	14,148	11,950
Earnings (loss) per share					
Basic	\$ 1.42	\$ 1.44	\$ (0.39)	\$ 0.63	\$ 0.54
Diluted	1.40	1.40	(0.39)	0.62	0.53
<u>Balance Sheet Data:</u>					
Working capital	\$ 170,907	\$ 150,922	\$ 119,926	\$ 142,219	\$ 116,816
Total assets	881,347	776,976	830,543	848,033	662,769
Long-term obligations	320,015	289,560	317,575	379,890	247,239

- (1) On December 15, 2011, we acquired Micro Power Electronics, Inc. This data includes the results of operations of this company subsequent to the acquisition. Additional information is set forth in Note 2 “Acquisitions” of the Notes to Consolidated Financial Statements contained in Item 8 of this report. On January 5, 2011, the Company sold its cost method investment in IntElect Medical, Inc. This transaction resulted in a pre-tax gain of \$4.5 million.
- (2) From 2007 to 2011, we recorded material charges in Other Operating Expenses, Net, primarily related to our cost savings and consolidation initiatives. Additional information is set forth in Note 12 “Other Operating Expenses, Net” of the Notes to Consolidated Financial Statements contained in Item 8 of this report.
- (3) During 2008, we acquired P Medical Holding, SA (January 2008) and DePuy Orthopaedics’ Chaumont, France facility (February 2008). During 2007, we acquired BIOMECH, Inc. (April 2007), Enpath Medical, Inc. (June 2007), IntelliSensing, LLC (October 2007), Quan Emerteq, LLC (November 2007), and Engineered Assemblies Corporation (November 2007). This data includes the results of operations of these companies subsequent to their acquisition. In connection with these acquisitions, we recorded charges in 2008 and 2007 of \$8.7 million and \$18.4 million, respectively, related to inventory step-up amortization and the write-off of in process research and development.
- (4) In 2009, we recorded a \$34.5 million charge related to litigation involving Electrochem and a \$15.9 million write-down of trademarks and tradenames. In 2010, we settled the Electrochem litigation which resulted in a \$9.5 million gain. Additional information is set forth in Note 14 “Commitments and Contingencies” and Note 6 “Intangible Assets” of the Notes to Consolidated Financial Statements contained in Item 8 of this report.

## **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.

### **Our Business**

- Our business
- Our acquisitions
- Our customers
- Strategic and financial overview
- Government regulation
- Product development

### **Our Critical Accounting Estimates**

- Valuation of goodwill and other identifiable intangible assets
- Stock-based compensation
- Inventories
- Tangible long-lived assets
- Provision for income taxes

### **Cost Savings and Consolidation Efforts**

### **Our Financial Results**

- Results of operations table
- Fiscal 2011 compared with fiscal 2010
- Fiscal 2010 compared with fiscal 2009
- Liquidity and capital resources
- Off-balance sheet arrangements
- Litigation
- Contractual obligations
- Inflation
- Impact of recently issued accounting standards

### **Our Business**

We operate our business in two reportable segments – Greatbatch Medical and Electrochem Solutions (“Electrochem”). The Company’s customers include large multi-national original equipment manufacturers (“OEMs”). Greatbatch Medical designs and manufactures medical devices and components for the cardiac rhythm management (“CRM”), neuromodulation, vascular access and orthopaedic markets. Additionally, Greatbatch Medical offers value-added assembly and design engineering services for products that incorporate Greatbatch Medical components. As a result of the strategy put in place over three years ago, Greatbatch Medical now offers its customers complete medical devices including design, development, manufacturing, regulatory submission and supporting worldwide distribution. This medical device strategy is being facilitated through the QiG Group and leverages the component technology of Greatbatch Medical and Electrochem in our core markets: cardiovascular, neuromodulation and orthopaedic. Once the QiG Group designs and develops a medical device, it is manufactured by Greatbatch Medical. The operating expenses of the QiG Group are included within the Greatbatch Medical segment.

Electrochem provides technology solutions where safety, reliability, quality and durability are critical. Electrochem's customized primary (non-rechargeable) and secondary (rechargeable) battery solutions are used in markets such as energy, portable medical, military, environmental and more. Electrochem's product lines cover a number of highly-customized battery-powered applications in remote and demanding environments, including down hole drilling tools, military communication devices, automated external defibrillators, oceanographic buoys and more. Electrochem's primary and secondary power solutions and wireless sensing systems are used in markets where failure is not an option.

### **Our Acquisitions**

On December 15, 2011, Electrochem acquired all of the outstanding stock of Micro Power Electronics, Inc. ("Micro Power") headquartered in Beaverton, OR. Micro Power is a leading supplier of custom battery solutions, serving the portable medical, military and handheld automatic identification and data collection markets. Micro Power's commercial portfolio is highly complementary to the products and services offered by Electrochem. The results of Micro Power's operations were included in our Electrochem segment from the date of acquisition. The aggregate purchase price of Micro Power was \$71.7 million, which we funded with cash on hand at Greatbatch and \$45 million borrowed under our revolving credit facility. Total assets acquired from Micro Power were \$88.2 million, of which \$60.8 million were intangible assets.

On February 16, 2012, we purchased all of the outstanding common stock of NeuroNexus Technologies, Inc. ("NeuroNexus") headquartered in Ann Arbor, MI. NeuroNexus is an active implantable medical device design firm specializing in developing and commercializing high-value neural interface technology, components and systems for neuroscience and clinical markets. NeuroNexus has an extensive intellectual property portfolio, core technologies and capabilities to support the development and manufacturing of innovative neural interface devices across a wide range of functions including neuromodulation, sensing, optical stimulation and targeted drug delivery applications. This transaction will be accounted for under the acquisition method of accounting. Accordingly, the results of NeuroNexus's operations will be included in our consolidated financial statements from the date of acquisition. The aggregate purchase price, which includes the repayment of NeuroNexus debt at closing, was approximately \$12 million and was funded with cash on hand.

Going forward, we will continue to pursue potential acquisitions.

### **Our Customers**

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

Our Greatbatch Medical customers include large multi-national OEMs, such as Biotronik, Boston Scientific, Johnson & Johnson, Medtronic, Smith & Nephew, Sorin Group, St. Jude Medical, Stryker and Zimmer. During 2011, Boston Scientific, Johnson & Johnson, Medtronic and St. Jude Medical collectively accounted for 59% of our total sales.

Our Electrochem customers are primarily companies involved in demanding markets where highly sophisticated power solutions or wireless sensing needs exist, such as energy, portable medical, military and environmental. Some of our larger OEM customers include General Electric, Halliburton Company, Scripps Institution of Oceanography, Thales, Weatherford International and Zoll Medical Corp.

## **Strategic and Financial Overview**

In 2007, we initiated a diversification strategy in order to enter new higher growth markets and provide a more stable foundation from which to grow over the long-term. The benefits of this strategy were evident over the last two years as growth in our Vascular Access, Orthopaedic and Electrochem product lines offset the slowdown in our CRM business. As a result, sales increased 7% and 2% in 2011 and 2010, respectively, despite flat CRM/Neuromodulation revenue over that two year period. Further evidence of the benefits of this strategy was the reduction of CRM/Neuromodulation revenue to 53% of our total sales in 2011, compared to 80% in 2007. Furthermore, with Electrochem's acquisition of Micro Power in December 2011, CRM/Neuromodulation revenue is expected to comprise less than 50% of total revenue in 2012. Additionally, the concentration of sales to our top three customers in the CRM market was reduced to 46% of revenues in 2011, versus 67% for those same three customers in 2007. Our goal is to reduce our concentration in the CRM market to below one-third of our revenue within the next five years.

Simultaneous with the initiation of our growth and diversification strategy, we began evolving our Company strategy to include the development of innovative medical devices in order to raise the growth and profitability profile of the Company. This medical device strategy is being facilitated through our QiG Group and leverages the component technology of Greatbatch Medical and Electrochem. Investments in medical device products totaled \$29 million, \$22 million and \$15 million for 2011, 2010 and 2009, respectively, and included charges to selling, general and administrative expenses ("SG&A") and net research, development and engineering ("RD&E"). As a result, SG&A increased to 12.8% of total sales in 2011 compared to 12.1% in 2010 and RD&E costs increased to 8.0% of total sales in 2011 compared to 5.8% in 2008. In 2011, we began to see the financial benefit of these investments as the products that had shorter development lead times, primarily in the Vascular Access market, began to commercialize. During 2011, sales from medical devices that were developed under the Greatbatch name totaled \$5 million and were the first medical device revenues in the 40 year history of our Company. We expect the growth and cadence of new medical device product introductions to accelerate over the next several years as our longer lead time systems and device products, which we have invested in over the last four years, will also begin to commercialize.

We have a longstanding history of operational excellence, which is one of our core competencies. As we move forward, investing in our operations will continue to be critical to the success of our growth and medical device strategies. Since 2007, we have invested substantial resources in integrating our acquisitions and streamlining our operations. The benefits of these initiatives can be seen in our improvement in adjusted operating income to \$67.6 million in 2011 from \$58.1 million in 2008, which equates to 5% compound annual growth and was achieved despite the significant increase in spending on research and development. The benefits of these initiatives can also be seen in the substantial increase in our cash flow from operating activities during that time to \$89.9 million in 2011 from \$57.1 million in 2008. This strong cash flow helped to fund the repayment of debt, which totaled approximately \$164.5 million over the last three years. Our goal is to continuously improve operating margin over the next three to five years through our initiatives to improve operating performance and through the development of innovative products to drive future revenue growth, including medical device products. Consistent with this strategy, during 2011, we began implementing a multi-faceted plan to further expand, optimize and leverage our manufacturing infrastructure. These initiatives will take the better part of 2012 and 2013 to complete, but once finished, will leave us with a more capable and cost effective Orthopaedic operations and an infrastructure that will support the manufacturing of medical devices. Total capital investment in connection with these initiatives is expected to be between \$40 million and \$50 million with an additional \$15 million to \$20 million of expense.

To date, we have been successful in the implementation of all three facets of our strategy despite the macro-economic challenges that we are facing. Our strategy has positioned our Company for higher growth and profitability over the next several years and provides us multiple levers to achieve this growth. Namely, organic growth, growth through targeted acquisitions and growth through commercialization of our medical devices. Fundamental to this growth strategy will be our underlying core competency of sustaining operational excellence.

We prepare our consolidated financial statements in accordance with generally accepted accounting principles in the United States of America (“GAAP”). Additionally, we consistently report and discuss in our quarterly earnings releases and investor presentations adjusted operating income and margin, adjusted net income and adjusted earnings per diluted share, which are non-GAAP measures. These adjusted amounts consist of GAAP amounts and, to the extent occurring during a period, excludes (i) acquisition-related charges, (ii) facility consolidation, manufacturing transfer and system integration charges, (iii) asset write-down and disposition charges, (iv) severance charges in connection with corporate realignments or a general reduction in force (v) litigation charges and gains, (vi) the impact of non-cash charges to interest expense due to the accounting change governing convertible debt, (vii) unusual or infrequently occurring items, (viii) certain R&D expenditures (such as DVT expenses incurred in connection with the development of our Neuromodulation platform), (ix) gain/loss on the sale of investments and (x) the income tax (benefit) related to these adjustments. We believe that reporting these amounts provides important supplemental information to our investors and creditors seeking to understand the financial and business trends relating to our financial condition and results of operations. Additionally, the performance based compensation of our executive management is determined utilizing these adjusted amounts.

A reconciliation of GAAP operating income to adjusted operating income is as follows (in thousands):

	<b>Year Ended</b>		
	<b>December 30, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Operating income as reported	\$ 61,699	\$ 68,994	\$ 1,048
Adjustments:			
Inventory step-up amortization (COS)	177	-	-
Executive death benefits (SG&A)	-	885	-
Neuromodulation platform DVT expense (RD&E)	5,133	-	-
Electrochem Litigation charge (gain)	-	(9,500)	34,500
Intangible asset write-down	-	-	15,921
Consolidation costs	425	1,573	7,069
Integration costs	-	42	3,077
Asset dispositions, severance and other	168	2,943	948
Operating income - adjusted	<u>\$ 67,602</u>	<u>\$ 64,937</u>	<u>\$ 62,563</u>
Operating margin - adjusted	<u>11.9%</u>	<u>12.2%</u>	<u>12.0%</u>

A reconciliation of GAAP income (loss) before tax to adjusted net income and adjusted diluted earnings per share ("EPS") is as follows (in thousands, except per share amounts):

	<b>Year Ended</b>		
	<b>December 30, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Income (loss) before tax as reported	\$ 48,392	\$ 49,325	\$ (18,177)
Adjustments:			
Inventory step-up amortization (COS)	177	-	-
Executive death benefits (SG&A)	-	885	-
Neuromodulation platform DVT expense (RD&E)	5,133	-	-
Electrochem Litigation charge (gain)	-	(9,500)	34,500
Intangible asset write-down	-	-	15,921
Consolidation costs	425	1,573	7,069
Integration costs	-	42	3,077
Asset dispositions, severance and other	168	2,943	948
(Gain) loss on cost method investments, net	(4,232)	150	-
CSN conversion option discount amortization	8,483	7,876	7,311
Adjusted income before taxes	58,546	53,294	50,649
Adjusted provision for income taxes	18,824	17,576	14,688
Adjusted net income	<u>\$ 39,722</u>	<u>\$ 35,718</u>	<u>\$ 35,961</u>
Adjusted diluted EPS	<u>\$ 1.68</u>	<u>\$ 1.51</u>	<u>\$ 1.52</u>
Number of shares <sup>(a)</sup>	23,636	23,802	23,983

(a) Adjusted shares outstanding used for calculating adjusted diluted EPS for 2009 include the dilutive impact of outstanding equity awards and convertible subordinated notes of 1,057,000 that were not dilutive for GAAP purposes.

For 2012, we expect adjusted operating margin to be between 11.5% and 12.5% of sales. This guidance assumes continued investment in medical device projects, as well as a lower mix of higher margin CRM/Neuromodulation revenue. Adjusted operating income is expected to consist of GAAP operating income less approximately \$15 million to \$20 million of adjustments, of which approximately \$5 million are non-cash expenses.

Consolidated annual sales for 2012 are projected to be approximately \$645 million to \$665 million. This would equate to an increase of 13% to 17% over 2011. For 2012, adjusted diluted EPS is expected to be in the range of \$1.75 to \$1.85 per diluted share. This would equate to an increase of 4% to 10% over 2011 adjusted diluted EPS. Adjusted diluted EPS is GAAP diluted EPS excluding the after-tax impact of the adjusted amounts described above and \$9.1 million (\$5.9 million net of tax) of non-cash convertible debt interest expense. This guidance also assumes approximately 24 million average diluted shares outstanding.

## **Government Regulation**

The Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act (collectively “Health Care Reform”) legislated broad-based changes to the U.S. health care system that could significantly impact our business operations and financial results, including higher or lower revenue, as well as higher employee medical costs and taxes. Health Care Reform imposes significant new taxes on OEMs of medical devices, which will result in a significant increase in the tax burden on our industry and which could have a material, negative impact on our financial condition, results of operations and our cash flows. Other elements of Health Care Reform such as comparative effectiveness research, an independent payment advisory board, payment system reforms including shared savings pilots and other provisions could meaningfully change the way healthcare is developed and delivered, and may materially impact numerous aspects of our business, results of operations and financial condition. Many significant parts of Health Care Reform will be phased in over the next seven years and require further guidance and clarification in the form of regulations. As a result, many of the impacts of Health Care Reform will not be known until those regulations are enacted.

Since January 2010, there have been various actions by the U.S. Congress and the U.S. Department of Transportation, Pipeline and Hazardous Materials Safety Administration to amend requirements in the hazardous materials regulations on the transportation of lithium cells and batteries, including lithium cells and batteries packed or contained in equipment. If enacted, these actions could have negatively impacted our results of operations in the form of increased compliance costs for our lithium batteries. On February 14, 2012, President Obama signed into law the Federal Aviation Administration Modernization and Reform Act, which reconciles the nation’s standards with global rules on the air shipment of lithium batteries, except for narrow exceptions. As a result of this legislation, we do not expect any future U.S. legislative or administrative actions regarding the transportation of lithium cells and batteries will materially impact our results of operations, unless current global standards are revised.

On December 15, 2010, the U.S. Securities and Exchange Commission (“SEC”) issued a proposed rule under Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Section 1502 relates to reporting requirements regarding conflict minerals originating in the Democratic Republic of the Congo and adjoining countries. Under the proposed rule, issuers would be required to perform a “reasonable” due-diligence process to ascertain whether conflict minerals are necessary to the functionality or production of their manufactured or contracted to be manufactured products. If conflict minerals are used, the issuer would be required to make certain disclosures in its annual report on Form 10-K. We would incur additional, new compliance costs if the proposed rule is adopted since our Greatbatch Medical business utilizes some of the minerals specified in the proposed rule.

## **Product Development**

We continue to develop new component products for applications in our core markets, such as:

1. Q power solutions QHR® & QMR®, which maximize device performance and longevity with minimal size;
2. QCAPS™ which, when paired with QHR batteries, provides the smallest, longest-lived, highest energy power solutions for tachycardia devices;
3. Orthopaedic capabilities in order to improve quality and shorten lead-times, including the opening of additional regional development centers;
4. minimally invasive surgical techniques for the Orthopaedic industry;
5. disposable instrumentation for the Orthopaedic industry; and
6. next generation power sources for Electrochem’s energy and portable medical customers.

As part of the natural evolution of our Company, in 2008, we reassigned 40 Greatbatch Medical engineers to create the QiG Group in order to help facilitate the development of complete medical devices for our customers. In creating QiG, we pooled and focused the tremendous talent, resources and capacity for innovation within our organization. Today, QiG encompasses 130 research and development professionals working in facilities in five states and focused on three compelling therapeutic areas: cardiovascular, neuromodulation and, longer-term, orthopaedics. Additionally, QiG has established relationships with nearly a dozen key physicians who are highly specialized in these areas. These key opinion leaders are helping us to design medical devices from the ground up with features that will meet the needs of today's practicing clinicians.

Within the QiG Group, we are utilizing a disciplined and diversified portfolio approach with three investment modes—strategic equity investments in start-up companies, OEM customer discrete projects, and incubating new medical devices to be sold or licensed to an OEM partner. The QiG Group employs a disciplined and thorough process for evaluating these opportunities. A scorecard process is utilized to review and select the most strategically valuable ideas to pursue, taking into account a host of variables including the market opportunity, regulatory pathway and reimbursement; market need and market potential; intellectual property and projected financial return.

As a result of the investments we have made, we are now able to provide our customers with complete medical devices. This includes development and regulatory submissions, as well as manufacturing and supporting worldwide distribution. These medical devices are full product solutions that complement our OEM customers' products and utilize the component expertise and capabilities residing within Greatbatch Medical and Electrochem. The benefits to our OEM customers include shortening the time to market for these devices by accelerating the velocity of innovation, optimizing their supply chain and ultimately providing them with cost efficiencies.

We are currently in various stages of production or development on 15 to 20 medical devices, either through partnerships with our OEM customers or independently. While we do not discuss each of these projects individually each quarter, we will discuss significant milestones as they occur. Some of the medical device projects that we currently are working on include:

Cardiovascular portfolio - Venous and arterial introducers, anti-microbial coatings, steerable delivery systems, and MRI conditional brady, gastric stimulation and sleep apnea leads. During the first quarter of 2012, we received FDA 510(k) clearance on our transradial catheter sheath introducer and steerable delivery sheath for AF ablation. We expect sales of these medical devices to ramp up during the second half of 2012.

Neuromodulation portfolio – Algostim spinal cord stimulator for the treatment of chronic pain of the trunk and limbs. We are in the final stages of development of this device and are half way through the design verification testing phase. We are on track to make the applicable regulatory submissions on this device near the end of 2012.

### **Our Critical Accounting Estimates**

The preparation of our consolidated financial statements in accordance with 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 (1) it requires assumptions to be made that were uncertain at the time the estimate was made; and (2) 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.

### **Valuation of goodwill and other identifiable intangible assets**

When we acquire a company, we allocate the purchase price to the tangible and intangible assets we acquire and liabilities we assume based on their fair value at the date of acquisition. Some of our intangible assets are considered non-amortizing intangible assets as they are expected to generate cash flows indefinitely. Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Indefinite-lived intangibles and goodwill are not amortized but are required to be assessed for impairment on an annual basis or more frequent if certain indicators are present. Definite-lived intangible assets are amortized over their estimated useful lives and are assessed for impairment if certain indicators are present.

### ***Assumptions/Approach Used***

We base the fair value of identifiable tangible and intangible assets on detailed valuations that use information and assumptions provided by management. The fair values of the assets acquired and liabilities assumed are determined using one of three valuation approaches: market, income or cost. The selection of a particular method for a given asset depends on the reliability of available data and the nature of the asset. The market approach values the asset based on available market pricing for comparable assets. The income approach values the asset based on the present value of risk adjusted cash flows projected to be generated by that asset. The projected cash flows for each asset considers multiple factors, including current revenue from existing customers, attrition trends, reasonable contract renewal assumptions from the perspective of a marketplace participant, and expected profit margins giving consideration to historical and expected margins. The cost approach values the asset by determining the current cost of replacing that asset with another of equivalent economic utility. The cost to replace the asset reflects the estimated reproduction or replacement cost, less an allowance for loss in value due to depreciation or obsolescence, with specific consideration given to economic obsolescence if indicated.

We perform an annual review on the last day of each fiscal year, or more frequently if indicators of potential impairment exist, to determine if the recorded goodwill and other indefinite-lived intangible assets are impaired. We assess goodwill for impairment by comparing the fair value of our reporting units to their carrying value to determine if there is potential impairment. If the fair value of a reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the implied fair value of the goodwill within the reporting unit is less than its carrying value. Fair values for reporting units are determined based on the income and market approaches. Indefinite-lived intangible assets are evaluated for impairment by using the income approach. Definite-lived intangible assets are reviewed at least quarterly to determine if any conditions exist or a change in circumstances has occurred that would indicate impairment or a change in their remaining useful life.

We do not believe that the indefinite-lived intangible assets or goodwill allocated to our Greatbatch Medical or Electrochem segments are at risk of failing step one of future annual impairment tests unless operating conditions significantly deteriorate, given the significant amount that our estimated fair value for these assets was in excess of their respective book values as of December 30, 2011.

#### ***Effect of Variation of Key Assumptions Used***

The use of alternative valuation assumptions, including estimated cash flows and discount rates, and alternative estimated useful life assumptions could result in different purchase price allocations. Significant changes in these estimates and assumptions could impact the value of the assets and liabilities recorded, which would change the amount and timing of future intangible asset amortization expense.

We make certain estimates and assumptions that affect the expected future cash flows of our reporting units for our goodwill impairment testing. These include discount rates, terminal values and projections of future revenues and expenses. Significant changes in these estimates and assumptions could create future impairment losses to our goodwill. The assumptions used in our 2011 impairment test incorporate growth rates disclosed in “2012 Sales Outlook” of this section as well as other forward-looking statements made in this Management Discussion and Analysis of Financial Condition and Results of Operations section.

For our indefinite-lived intangible assets, we make estimates of royalty rates, future revenues and discount rates. Significant changes in these estimates could create future impairments of these assets.

Estimation of the useful lives of indefinite- and definite-lived intangible assets is based upon the estimated cash flows of the respective intangible asset and requires significant management judgment. Events could occur that would materially affect our estimates of the useful lives. Significant changes in these estimates and assumptions could change the amount of future amortization expense or could create future impairments of these intangible assets.

As of December 30, 2011, we have \$459.2 million of intangible assets recorded on our consolidated balance sheet representing 52% of total assets. This includes \$100.3 million of amortizing intangible assets, \$20.2 million of indefinite-lived intangible assets and \$338.7 million of goodwill. A 1% change in the amortization of our intangible assets would change 2011 net income by approximately \$0.07 million, or approximately \$0.003 per diluted share.

#### **Stock-based compensation**

We record compensation costs related to our stock-based awards which include stock options, restricted stock and restricted stock units. We measure stock-based compensation cost at the grant date based on the fair value of the award.

Compensation cost for service-based awards is recognized ratably over the applicable vesting period. Compensation cost for performance awards based on Company financial metrics is reassessed each period and recognized based upon the probability that the performance targets will be achieved. Compensation cost for performance awards based on market metrics (such as total shareholder return) is expensed each period whether the performance metrics are achieved or not. The amount of stock-based compensation expense recognized during a period is based on the portion of the awards that are ultimately expected to vest, as well as market and nonmarket performance award considerations. The total expense recognized over the vesting period will only be for those awards that ultimately vest, as well as market and nonmarket performance award considerations.

### ***Assumptions/Approach Used***

We utilize the Black-Scholes Option Pricing Model to determine the fair value of stock options. We are required to make certain assumptions with respect to selected Black-Scholes model inputs, including expected volatility, expected life, expected dividend yield and the risk-free interest rate. Expected volatility is based on the historical volatility of our stock over the most recent period commensurate with the estimated expected life of the stock options. The expected life of stock options granted, which represents the period of time that the stock 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 interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for a period commensurate with the estimated expected life.

The fair value of time-based as well as nonmarket-based performance restricted stock and restricted stock unit awards is equal to the fair value of the Company's stock on the date of grant. The fair value of market-based performance restricted stock unit awards is determined by utilizing a Monte Carlo simulation model, which projects the value of Greatbatch stock versus our peer group under numerous scenarios and determines the value of the award based upon the present value of these projected outcomes.

Compensation cost for nonmarket-based performance awards is reassessed each period and recognized based upon the probability that the performance targets will be achieved. That assessment is based upon actual and expected future performance.

Stock-based compensation expense is only recorded for those awards that are expected to vest, as well as market and nonmarket performance award considerations. 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.

### ***Effect of Variation of Key Assumptions Used***

Option pricing models were developed for use in estimating the value of traded options that have no vesting restrictions and are fully transferable. Because our share-based payments have characteristics significantly different from those of freely traded options, and because changes in the subjective input assumptions can materially affect our estimates of fair values, existing valuation models may not provide reliable measures of the fair values of our share-based compensation. Consequently, there is a risk that our estimates of the fair values of our share-based compensation awards may bear little resemblance to the actual values realized upon the exercise, expiration or forfeiture of those share-based payments in the future. Stock options may expire worthless or otherwise result in zero intrinsic value as compared to the fair values originally estimated on the grant date and reported in our consolidated financial statements. Alternatively, value may be realized from these instruments that are significantly in excess of the fair values originally estimated on the grant date and reported in our consolidated financial statements. There are significant differences among valuation models. This may result in a lack of comparability with other companies that use different models, methods and assumptions.

There is a high degree of subjectivity involved in selecting assumptions to be utilized to determine fair value and forfeiture assumptions. If factors change and result in different assumptions in future periods, the expense that we record for future grants may differ significantly from what we have recorded in the current period. Additionally, changes in performance of the Company and its stock price will affect the likelihood that performance-based targets are achieved and could materially impact the amount of stock-based compensation expense recognized.

A 1% change in our stock-based compensation expense would increase/decrease 2011 net income by approximately \$0.05 million, or approximately \$0.002 per diluted share.

### **Inventories**

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

#### ***Assumptions/Approach Used***

Inventory costing requires complex calculations that include assumptions for overhead absorption, scrap, sample calculations, manufacturing yield estimates and the determination of which costs may be capitalized. The valuation of inventory requires us to estimate obsolete or excess inventory, as well as inventory that is not of saleable quality.

#### ***Effect of Variation of Key Assumptions Used***

Variations in methods or assumptions could have a material impact on our results. If our demand forecast for specific products is greater than actual demand and we fail to reduce manufacturing output accordingly, we could be required to record additional inventory write-downs or expense a greater amount of overhead costs, which would have a negative impact on our net income. As of December 30, 2011, we have \$109.9 million of inventory recorded on our balance sheet representing 12% of total assets. A 1% write-down of our inventory would decrease 2011 net income by approximately \$0.7 million, or approximately \$0.03 per diluted share.

### **Tangible long-lived assets**

Property, plant and equipment and other tangible long-lived assets are carried at cost. The cost of property, plant and equipment is charged to depreciation expense over the estimated life of the operating assets primarily using straight-line rates. Tangible long-lived assets are subject to impairment assessment if certain indicators are present.

#### ***Assumptions/Approach Used***

We assess the impairment of tangible long-lived assets when events or changes in circumstances indicate that the carrying value of the asset (asset group) may not be recoverable. Factors that we consider in deciding when to perform an impairment review include, but are not limited to: a significant decrease in the market price of the asset (asset group); a significant change in the extent or manner in which a long-lived asset (asset group) is being used or in its physical condition; A significant change in legal factors or in the business climate that could affect the value of a long-lived asset (asset group), including an action or assessment by a regulator; an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction; a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset (asset group); or a current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. Recoverability potential is measured by comparing the carrying amount of the asset (asset group) to the related total future undiscounted cash flows. The projected cash flows for each asset (asset group) considers multiple factors, including current revenue from existing customers, proceeds from the sale of the asset (asset group), reasonable contract renewal assumptions, and expected profit margins giving consideration to historical and expected margins. If an asset's (assets group's) carrying value is not recoverable through related cash flows, the asset (asset group) is considered to be impaired. Impairment is measured by comparing the asset's (asset group's) carrying amount to its fair value. 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, we accelerate the rate of depreciation in order to fully depreciate the assets over their shorter useful lives.

### ***Effect of Variation of Key Assumptions Used***

Estimation of the useful lives of tangible assets that are long-lived requires significant management judgment. Events could occur, including changes in cash flow that would materially affect our estimates and assumptions related to depreciation. Unforeseen changes in operations or technology could substantially alter the assumptions regarding the ability to realize the return of our investment in long-lived assets. Also, as we make manufacturing process conversions and other facility consolidation decisions, we must make subjective judgments regarding the remaining useful lives of our assets, primarily manufacturing equipment and buildings. Significant changes in these estimates and assumptions could change the amount of future depreciation expense or could create future impairments of these long-lived assets (asset groups).

As of December 30, 2011 we have \$145.8 million of tangible long-lived assets recorded on our consolidated balance sheet representing 17% of total assets. A 1% write-down in our tangible long-lived assets would decrease 2011 net income by approximately \$0.9 million, or approximately \$0.04 per diluted share.

### **Provision for income taxes**

Our consolidated financial statements have been prepared using the asset and liability approach in accounting for income taxes, which requires the recognition of deferred income taxes 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.

### ***Assumptions/Approach Used***

In relation to recording the provision for income taxes, management must estimate the future tax rates applicable to the reversal of temporary differences based upon the 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 income taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. Alternatively, we may make estimates about the potential usage of deferred tax assets that decrease our valuation allowances.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. Significant judgment is required in evaluating our tax positions and determining our provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We establish reserves for uncertain tax positions when we believe that certain tax positions do not meet the more likely than not threshold. We adjust these reserves in light of changing facts and circumstances, such as the outcome of a tax audit or the lapse of statutes of limitations. The provision for income taxes includes the impact of reserve provisions and changes to the reserves that are considered appropriate.

### ***Effect of Variation of Key Assumptions Used***

Changes could occur that would materially affect our estimates and assumptions regarding deferred taxes. Changes in current tax laws and tax rates could affect the valuation of deferred tax assets and liabilities, thereby changing the income tax provision. Also, significant declines in taxable income could materially impact the realizable value of deferred tax assets. At December 30, 2011, we had \$33.3 million of gross deferred tax assets on our consolidated balance sheet and a valuation allowance of \$7.8 million has been established for certain deferred tax assets as it is more likely than not that they will not be realized. A 1 percentage point change in the effective tax rate would impact the current year provision for income taxes by \$0.5 million, and 2011 diluted earnings per share by \$0.02 per diluted share.

### **Cost Savings and Consolidation Efforts**

In 2011, 2010 and 2009, we recorded charges in Other Operating Expenses, Net in the Consolidated Statements of Operations in connection with various cost savings and consolidation initiatives. These initiatives were undertaken to improve our operational efficiencies and profitability. Additional information regarding the timing, cash flow and amount of future expenditures is set forth in Note 12 "Other Operating Expenses, Net" of the Notes to Consolidated Financial Statements contained in Item 8 of this report.

In 2011, we began construction on an 80,000 square foot manufacturing facility in Allen County, IN., which is expected to be completed by mid-2012. In 2011, we also initiated a multi-faceted plan to further enhance, optimize and leverage our Orthopaedics operations. This plan includes the opening of two Orthopaedic design centers, transferring production of certain Orthopaedic product lines to other lower cost manufacturing facilities and the consolidation of our Orthopaedic operations in Switzerland into a new facility. As part of the Switzerland consolidation, a Letter of Intent was received from the Canton of Bern for a new Tax Holiday, which is contingent on the purchase or construction of a new facility. If the new Tax Holiday is granted, we believe it will positively impact our effective tax rate. These initiatives are expected to be completed over the next two to three years. Total capital investment under these initiatives is expected to be between \$50 million and \$60 million of which approximately \$13 million has been incurred to date. Total expenses expected to be incurred on these projects is between \$10 million to \$15 million of which approximately \$1 million has been incurred to date.

Near the end of 2011, we initiated plans to upgrade and expand our manufacturing infrastructure in order to support our medical device strategy. This will include expansion of two of our existing facilities, the purchase of equipment, as well as the transfer of certain product lines to create additional capacity for the manufacture of medical devices. These initiatives are expected to be completed over the next two to three years. Total capital investment under these initiatives is expected to be between \$15 million to \$20 million of which approximately \$1 million has been incurred to date. Total expenses expected to be incurred on these projects is between \$2 million to \$3 million of which none has been incurred to date.

We expect the above initiatives to generate approximately \$4 million to \$7 million of annual cost savings, which is expected to fund the increased infrastructure costs also associated with these initiatives.

In 2011, we initiated plans to upgrade our existing global ERP system. This initiative is expected to be completed over the next two years. Total capital investment and expense to be incurred under this initiative is approximately \$10 million of which approximately half is to be expensed and relates to consulting costs to be incurred during the implementation.

## Our Financial Results

We utilize a fifty-two, fifty-three week fiscal year ending on the Friday nearest December 31st. Fiscal years 2011, 2010 and 2009 ended on December 30, 2011, December 31, 2010 and January 1, 2010, respectively. Fiscal years 2011, 2010 and 2009 all contained fifty-two weeks.

### Results of Operations Table

Dollars in thousands, except per share data

	Year Ended			2011 vs. 2010		2010 vs. 2009	
	Dec. 30, 2011	Dec. 31, 2010	Jan. 1, 2010	\$ Change	% Change	\$ Change	% Change
Sales:							
Greatbatch Medical							
CRM/Neuromodulation	\$ 303,690	\$ 303,521	\$ 305,354	\$ 169	0%	\$ (1,833)	-1%
Vascular Access	45,098	38,000	35,816	7,098	19%	2,184	6%
Orthopaedic	140,277	118,748	113,897	21,529	18%	4,851	4%
Total Greatbatch Medical	489,065	460,269	455,067	28,796	6%	5,202	1%
Electrochem	79,757	73,156	66,754	6,601	9%	6,402	10%
Total sales	568,822	533,425	521,821	35,397	7%	11,604	2%
Cost of sales	388,469	359,844	355,402	28,625	8%	4,442	1%
Gross profit	180,353	173,581	166,419	6,772	4%	7,162	4%
<i>Gross profit as a % of sales</i>	31.7%	32.5%	31.9%				
Selling, general and administrative							
expenses (SG&A)	72,548	64,510	70,294	8,038	12%	(5,784)	-8%
<i>SG&amp;A as a % of sales</i>	12.8%	12.1%	13.5%				
Research, development and							
engineering costs, net (RD&E)	45,513	45,019	33,562	494	1%	11,457	34%
<i>RD&amp;E as a % of sales</i>	8.0%	8.4%	6.4%				
Electrochem Litigation charge (gain)	-	(9,500)	34,500	9,500	-100%	(44,000)	NA
Intangible asset write-down	-	-	15,921	-	-	(15,921)	-100%
Other operating expenses, net	593	4,558	11,094	(3,965)	-87%	(6,536)	-59%
Operating income	61,699	68,994	1,048	(7,295)	-11%	67,946	NA
<i>Operating margin</i>	10.8%	12.9%	0.2%				
Interest expense	16,928	18,519	20,071	(1,591)	-9%	(1,552)	-8%
Interest income	(21)	(10)	(324)	(11)	NA	314	-97%
(Gain) loss on cost method investments	(4,232)	150	-	(4,382)	NA	150	NA
Other (income) expense, net	632	1,010	(522)	(378)	-37%	1,532	NA
Provision (benefit) for income taxes	15,270	16,187	(9,176)	(917)	-6%	25,363	NA
<i>Effective tax rate</i>	31.6%	32.8%	50.5%				
Net income (loss)	\$ 33,122	\$ 33,138	\$ (9,001)	\$ (16)	0%	\$ 42,139	NA
<i>Net margin</i>	5.8%	6.2%	-1.7%				
Diluted earnings (loss) per share	\$ 1.40	\$ 1.40	\$ (0.39)	\$ -	-	\$ 1.79	NA

## Fiscal 2011 Compared with Fiscal 2010

### *Sales*

Changes to sales by major product lines were as follows (in thousands):

	<u>Year Ended</u>		<u>2011 vs. 2010</u>	
	<u>December 30, 2011</u>	<u>December 31, 2010</u>	<u>\$ Change</u>	<u>% Change</u>
Sales:				
Greatbatch Medical				
CRM/Neuromodulation	\$ 303,690	\$ 303,521	\$ 169	0%
Vascular Access	45,098	38,000	7,098	19%
Orthopaedic	140,277	118,748	21,529	18%
Total Greatbatch Medical	489,065	460,269	28,796	6%
Electrochem	79,757	73,156	6,601	9%
Total sales	<u>\$ 568,822</u>	<u>\$ 533,425</u>	<u>\$ 35,397</u>	<u>7%</u>

**Greatbatch Medical** – Our 2011 revenue from our Greatbatch Medical business increased \$28.8 million or 6% from 2010 as double digit growth in our Vascular Access and Orthopaedic product lines offset the slow-down in the CRM market. Greatbatch Medical sales for 2011 included the benefit of approximately \$5 million of medical device sales and the favorable impact of approximately \$8 million from foreign currency exchange rate fluctuations. On a constant currency basis, 2011 sales for Greatbatch Medical increased 5% over the prior year.

For the year, CRM/Neuromodulation sales were consistent with 2010. During the first half of 2011, CRM revenue included the benefit of customer inventory builds and product launches, which did not recur in the second half of 2011. Additionally, CRM/Neuromodulation sales continue to be impacted by pricing pressures and a slowdown in the underlying market. As a result of these headwinds, we expect CRM/Neuromodulation revenue for 2012 to be lower in the first half of 2012 but begin to rebound in the second half of the year as the CRM market stabilizes.

Full year 2011 Vascular Access sales increased 19% over 2010. This increase was primarily attributable to growth in the underlying market and market share gains. Additionally, Vascular Access revenue for 2011 included approximately \$4 million from sales of medical devices that were developed under the Greatbatch name, including sales of our OptiSeal Valved Peelable Introducer which received FDA clearance in 2010. For 2011, approximately \$1 million of device sales were included within the CRM/Neuromodulation product line. For 2012, we expect that medical device sales will be up to \$15 million, with the majority of that revenue being realized in the second half of the year and within the Vascular Access product line.

Orthopaedic sales of \$140.3 million for 2011 were 18% above 2010, and included approximately \$8 million of favorable foreign currency exchange rate benefit. Excluding this benefit, sales increased 11% organically over the prior year despite slower than expected underlying market growth. These increases occurred across all of our Orthopaedic products, which benefitted from customer product launches, as well as from market share gains during the quarter. These market share gains are a result of the investments made over the last several years to expand capabilities, shorten lead times, and improve quality and on-time delivery. Even though we have made significant improvements in this area, organic growth in 2012 will remain challenging given the weakness in the underlying healthcare markets and global economic headwinds.

Our visibility to our customer ordering patterns is over a relatively short period of time. Our customers have various inventory management, dual sourcing, and vertical integration initiatives, and the relative market share among OEM manufacturers' changes continuously. Additionally, we face pricing pressures from our customers and in particular our four largest OEM customers upon which a significant portion of our sales is dependent. These pressures have increased over the last several years due to the downturn in the global economy, and more specifically, the contracting CRM market. Consequently, these and other factors will continue to significantly impact our sales.

**Electrochem** – For 2011, sales for the Electrochem business segment increased 9% in comparison to 2010. Fourth quarter 2011 sales for Electrochem included \$2.5 million of additional revenue from the Micro Power acquisition. Excluding the additional revenue provided by Micro Power, sales for 2011 increased 6% on an organic basis. During 2011, Electrochem revenue varied from quarter to quarter due to the timing of various customer inventory pulls. For the full year, the increase in Electrochem revenue was a result of an increased investment in sales and marketing, which resulted in market share gains and several new customer contracts, as well as continued strength in the energy markets.

**2012 Sales Outlook** – 2012 annual product line revenue growth rates are expected to be as follows:

CRM & Neuromodulation:	-3% to 0%
Vascular Access:	10% to 20%
Orthopaedic:	5% to 15%
Electrochem <sup>(a)</sup> :	Approximately 5%

(a) Percentage increase assuming full year Micro Power revenue in 2011.

Based upon these growth rates, consolidated annual sales for 2012 are projected to be approximately \$645 million to \$665 million for 2012. This would equate to an increase of 13% to 17% over 2011. Given the underlying weakness in the healthcare markets, as well as the tough comparables versus the first and second quarters of 2011, we currently expect revenue for Greatbatch Medical for the first half of 2012 to be below 2011 levels, but rebound in the second half of the year as the healthcare markets stabilize. These growth projections may be impacted by a variety of factors including a continued softening in the healthcare markets, changes in pricing or exchange rates, changes in health care reimbursement policies, further dual sourcing/vertical integration initiatives by our customers and other factors described in “Cautionary Factors That May Affect Future Results” contained in Item 1 of this report.

## **Gross Profit**

Changes to gross profit as a percentage of sales were primarily due to the following:

	<b>2011-2010</b>
	<b><u>% Point Change</u></b>
Capacity & productivity <sup>(a)</sup>	0.9%
Performance-based compensation <sup>(b)</sup>	-0.9%
Mix change <sup>(c)</sup>	-0.5%
Selling price <sup>(d)</sup>	-0.8%
Other	<u>0.5%</u>
Total percentage point change to gross profit as a percentage of sales	<u><u>-0.8%</u></u>

- (a) Our gross profit percentage for 2011 benefitted from higher sales volumes, which absorbed excess capacity, as well as productivity gains from our various lean initiatives.
- (b) Our gross profit percentage for 2011 includes a higher level of performance-based compensation. Performance-based compensation is accrued based upon management's expectation of what level of performance will be achieved relative to targets set.
- (c) Our gross profit percentage for 2011 was negatively impacted by a lower mix of higher-margin CRM/Neuromodulation sales as a percentage of total sales compared to 2010.
- (d) Our gross profit percentage throughout 2011 was negatively impacted, in comparison to 2010, by price concessions made to our larger OEM customers near the end of 2010, which were given in exchange for long-term contracts.

Although down slightly for 2011, over the long-term, we expect our gross profit margin to improve as higher margin medical device products are introduced, as we continue to implement cost saving initiatives, and as revenue increases, which will absorb excess capacity.

## **SG&A Expenses**

Changes to SG&A expenses were primarily due to the following (in thousands):

	<b>2011-2010</b>
	<b><u>\$ Change</u></b>
Performance-based compensation <sup>(a)</sup>	\$ 3,935
Professional and consulting expense <sup>(b)</sup>	5,224
Litigation related fees and charges <sup>(c)</sup>	(808)
Executive death benefits <sup>(d)</sup>	(885)
Micro Power SG&A costs <sup>(e)</sup>	358
Other	<u>214</u>
Net increase in SG&A	<u><u>\$ 8,038</u></u>

- (a) SG&A costs for 2011 include a higher level of performance-based compensation expense due to meeting our targets in 2011 combined with lower than expected results in 2010. Performance-based compensation is accrued based upon management's expectation of performance relative to targets set.

- (b) Amount represents the change in professional and consulting expense from 2010 and reflects a higher level of costs incurred in connection with our medical device strategy, which impacted SG&A by \$4.0 million. These costs included consulting fees paid to outside contractors who are providing technical expertise on our device projects, as well as legal fees incurred in connection with the numerous patent filings that we are making.
- (c) During 2010, the Company incurred fees and charges in connection with two litigation matters that were subsequently settled near the end of 2010. Accordingly, litigation related fees and charges were lower during 2011 in comparison to the prior year.
- (d) SG&A expenses for 2010 include death benefits provided to the family of the Company's former Senior Vice President - Orthopaedics.
- (e) Amount represents the SG&A costs related to the operations of Micro Power, which was acquired on December 15, 2011.

***RD&E Expenses, Net***

Net RD&E costs were as follows (in thousands):

	<b>Year Ended</b>	
	<b>December 30, 2011</b>	<b>December 31, 2010</b>
Research and development costs	\$ 19,014	\$ 17,378
Engineering costs	35,472	34,208
Less cost reimbursements	(8,973)	(6,567)
Engineering costs, net	26,499	27,641
Total RD&E, net	<u>\$ 45,513</u>	<u>\$ 45,019</u>

Net RD&E costs for 2011 totaled \$45.5 million, or 8.0% of sales, versus \$45.0 million, or 8.4% of sales for 2010. As expected, during 2011, we continued to invest resources in developing complete medical devices for our OEM customers. Total RD&E costs incurred in connection with our medical device initiatives were \$23.3 million during 2011 compared to \$20.3 million in 2010. This included \$5.1 million of design verification testing costs expensed in 2011 related to the QiG Group's development of a neuromodulation platform. When combined with the SG&A expenses discussed above, total costs incurred in connection with our medical device initiatives totaled \$29 million in 2011 versus \$22 million in 2010.

Partially offsetting these RD&E increases was a higher level of customer cost reimbursements of \$2.4 million for 2011. These cost reimbursements can vary significantly from period to period due to the timing of the achievement of milestones on development projects.

As the development work on some of our medical device programs wind down due to the commercialization of those projects, we intend to reinvest those RD&E dollars into new medical device projects that have been identified. Accordingly, for 2012, we expect net RD&E expenditures as a percentage of sales to remain consistent with current year levels and are expected to be in the range of 8.5% to 9% of sales. Over time, the amount of net RD&E dollars we spend is expected to increase as the Company grows, but is expected to remain relatively consistent as a percentage of sales.

### ***Electrochem Litigation Charge (Gain)***

In 2009, a Louisiana jury found in favor of a former Electrochem customer on their claims made in connection with a failed business transaction dating back to 1997. During 2009, we accrued \$34.5 million in connection with this litigation after the unfavorable jury verdict. In the fourth quarter of 2010, we settled this litigation for \$25 million and accordingly recognized a \$9.5 million gain. See Note 14 “Commitments and Contingencies” of the Notes to Consolidated Financial Statements contained in Item 8 of this report.

### ***Other Operating Expenses, Net***

Other operating expenses, net were comprised of the following (in thousands):

	<b>Year Ended</b>	
	<b>December 30, 2011</b>	<b>December 31, 2010</b>
Orthopaedic facility optimization <sup>(a)</sup>	\$ 425	\$ 225
2007 & 2008 facility shutdowns and consolidations <sup>(b)</sup>	-	1,348
Integration costs <sup>(c)</sup>	-	42
Asset dispositions, severance and other <sup>(d)</sup>	168	2,943
Total other operating expenses, net	<u>\$ 593</u>	<u>\$ 4,558</u>

- (a) During the third quarter of 2010, we began to incur costs in connection with the optimization of our Orthopaedic operations in order to increase capacity, further expand our capabilities and reduce dependence on outside suppliers. Ultimately these updates will further reduce our lead times, improve quality and allow us to better meet the needs of our customers. Additional information regarding the timing, cash flow and amount of future expenditures is discussed in Note 12 “Other Operating Expenses, Net” of the Notes to Consolidated Financial Statements contained in Item 8 of this report.
- (b) In 2010, we recorded charges related to our various cost savings and consolidation efforts initiated in 2007 and 2008. Over the long-term, we expect these initiatives to continue to positively impact operational efficiencies and profitability. Additional information regarding the timing, cash flow and amount of future expenditures is discussed in Note 12 “Other Operating Expenses, Net” of the Notes to Consolidated Financial Statements contained in Item 8 of this report.
- (c) During 2010, we incurred costs related to the integration of the companies acquired in 2007 and 2008. The integration initiatives include the implementation of the Oracle ERP system, training and compliance with policies, as well as the implementation of lean manufacturing and six sigma initiatives. The expenses were primarily for consultants, relocation and travel costs.
- (d) During 2011 and 2010, we recorded write-downs in connection with various asset disposals, net of insurance proceeds received, if any. Additionally, during 2011 we incurred \$0.6 million of acquisition related costs in connection with our purchase of Micro Power. During 2010, we consolidated our Greatbatch Medical segment, which included the elimination of certain positions globally. Severance charges associated with this realignment were \$2.3 million.

For 2012, we currently expect to incur approximately \$15 million to \$20 million of other operating expenses primarily related to implementing various cost savings and consolidation initiatives, of which approximately \$5 million is non-cash. See the discussion under “Cost Savings and Consolidation Efforts,” within this Item 7, for further details on these initiatives.

### ***Interest Expense and Interest Income***

Interest expense for 2011 decreased \$1.6 million from 2010 primarily due to the repayment of \$118.5 million of long-term debt over the last two years and the impact of lower interest rates, partially offset by increased discount amortization on our convertible notes. See Note 8 “Debt” of the Notes to Consolidated Financial Statements contained in Item 8 of this report. Interest income for 2011 was relatively consistent with 2010.

### ***Gain (Loss) on Cost Method Investments***

In 2011, we sold our cost method investment in IntElect Medical, Inc. (“IntElect”) in conjunction with Boston Scientific’s acquisition of IntElect. We obtained our ownership interest in IntElect through our acquisition of BIOMECH, Inc. in 2007 and two subsequent additional investments. This transaction resulted in a pre-tax gain of \$4.5 million (\$3.0 million net-of-tax). During 2011 and 2010, we recognized impairment charges related to our cost method investments of \$0.3 million and \$0.2 million, respectively, based upon recent stock offerings by those companies. The aggregate recorded amount of our cost method investments at December 30, 2011 was \$5.7 million. These investments are in start-up research and development companies whose fair value is highly subjective in nature and subject to future fluctuations, which could be significant. Our exposure related to these entities is limited to our recorded investment.

### ***Other Expense, Net***

Other expense, net primarily includes the impact of foreign currency exchange rate fluctuations on transactions denominated in foreign currencies. We generally do not expect foreign currency exchange rate fluctuations to have a material impact on our net income.

### ***Provision for Income Taxes***

The effective tax rate for 2011 was 31.6% versus 32.8% for 2010. The effective tax rates for 2011 and 2010 are lower than the U.S. statutory rate primarily due to the R&D tax credit, as well as the favorable impact of the resolution of tax audits and the lapse of statutes of limitation on certain tax items. See Note 13 “Income Taxes” of the Notes to Consolidated Financial Statements contained in Item 8 of this report for a reconciliation of the U.S. statutory rate to our effective tax rate.

For 2012, we currently expect our effective tax rate to approximate the U.S. statutory rate of 35% due to the expiration of the R&D tax credit at the end of 2011. There is a potential for volatility of the effective tax rate due to several factors, including changes in the mix of pre-tax income and the jurisdictions to which it relates, business acquisitions, settlements with taxing authorities and foreign currency fluctuations.

In its budget submission to Congress in February 2012, the Obama administration proposed changes to the manner in which the U.S. would tax the international income of U.S. based companies. While it is uncertain how the U.S. Congress will address U.S. tax policy in the future, reform of U.S. taxation, including taxation of international income, continues to be a topic of discussion for Congress. A significant change to the U.S. tax system, including changes to the taxation of international income, could have a material effect on our effective tax rate.

We believe it is reasonably possible that a reduction of up to \$0.8 million of the balance of our unrecognized tax benefits may occur within the next twelve months as a result of the expiration of applicable statutes of limitation and potential audit settlements, which would positively impact the effective tax rate in the period of reduction.

## Fiscal 2010 Compared with Fiscal 2009

### *Sales*

Changes to sales by major product lines were as follows (in thousands):

	<u>Year Ended</u>		<u>2010 vs. 2009</u>	
	<u>December 31, 2010</u>	<u>January 1, 2010</u>	<u>\$ Change</u>	<u>% Change</u>
Sales:				
Greatbatch Medical				
CRM/Neuromodulation	\$ 303,521	\$ 305,354	\$ (1,833)	-1%
Vascular Access	38,000	35,816	2,184	6%
Orthopaedic	118,748	113,897	4,851	4%
Total Greatbatch Medical	460,269	455,067	5,202	1%
Electrochem	73,156	66,754	6,402	10%
Total sales	<u>\$ 533,425</u>	<u>\$ 521,821</u>	<u>\$ 11,604</u>	<u>2%</u>

**Greatbatch Medical** – Our 2010 revenue from our Greatbatch Medical business increased \$5.2 million or 1% from 2009 as recoveries in the Vascular Access and Orthopaedic markets offset the slow-down in the CRM market.

For 2010, CRM/Neuromodulation sales were consistent with 2009 as higher volumes were offset by continued pressure from OEM customers on pricing and dual sourcing/vertical integration initiatives. More specifically, higher battery, capacitor and assembly revenue were offset by lower feedthrough and enclosure sales. Battery and capacitor sales for 2009 were impacted by customer inventory adjustments and, as expected, returned to more normalized levels in 2010. CRM revenue is significantly impacted each period due to the timing of various customer product launches, shifts in customer market share, customer inventory management initiatives as well as marketplace field actions.

For 2010, Vascular Access sales increased 6% primarily due to higher introducer and catheter sales.

Orthopaedic product line sales of \$118.7 million for 2010 were 4% above 2009. This increase was across all of our Orthopaedic products as the markets continued to recover from the slowdown in 2009 and as our investments and expanded capabilities have begun to deliver new business, which included our new rapid prototyping facility, pilot line and spine implant and reconstructive implant capabilities. For the year, Orthopaedic sales include approximately \$2 million of negative foreign currency exchange rate impact in comparison to 2009.

**Electrochem** – 2010 sales for the Electrochem business segment were \$73.2 million, an increase of \$6.4 million or 10% compared to 2009. This increase from the prior year primarily related to the recovery in the energy and portable medical markets from the slowdown in 2009, which caused customers to reduce inventory levels and push back projects. Additionally, Electrochem sales benefited from marketing initiatives undertaken during the economic downturn, which positioned us to capture market share once the markets recovered.

### ***Gross Profit***

Changes to gross profit as a percentage of sales were primarily due to the following:

	<b>2010-2009</b>
	<b><u>% Point Change</u></b>
Capacity & productivity <sup>(a)</sup>	-0.9%
Selling price <sup>(b)</sup>	-0.5%
Mix change <sup>(c)</sup>	2.8%
Other	-0.8%
Total percentage point change to gross profit as a percentage of sales	<u>0.6%</u>

- (a) Our gross profit percentage was negatively impacted by excess capacity costs due to our increased infrastructure investment in our Orthopaedic product lines in comparison to 2009. Modest productivity improvement initiatives partially offset these excess capacity costs. In accordance with our inventory accounting policy, excess capacity costs are expensed.
- (b) Our gross profit percentage was negatively impacted in 2010 by contractual volume price reductions and price concessions made to our larger OEM customers on certain product lines.
- (c) Our gross profit percentage was positively impacted by an increase in sales of higher margin products as a percentage of total sales, primarily within our CRM, Vascular Access and Electrochem product lines.

### ***SG&A Expenses***

Changes to SG&A expenses were primarily due to the following (in thousands):

	<b>2010-2009</b>
	<b><u>\$ Change</u></b>
Personnel costs <sup>(a)</sup>	\$ (2,688)
Information technology and consulting <sup>(b)</sup>	(1,555)
Allowance for doubtful accounts <sup>(c)</sup>	(1,095)
Other	(446)
Net decrease in SG&A	<u>\$ (5,784)</u>

- (a) Amount reflects our consolidation and cost reduction initiatives. A portion of these cost savings were reinvested in RD&E. SG&A expenses for 2010 include \$0.9 million of death benefits provided to the family of the Company's former Senior Vice President - Orthopaedics.
- (b) Amount represents the change in information technology and consulting costs from 2009 and reflects our cost reduction initiatives.
- (c) Amount primarily relates to lower losses incurred on uncollectible receivables compared to 2009, which included higher Electrochem and Orthopaedic write-offs due to the economic slowdown.

### ***RD&E Expenses, Net***

Net RD&E costs were as follows (in thousands):

	<b>Year Ended</b>	
	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Research and development costs	\$ 17,378	\$ 17,707
Engineering costs	34,208	26,438
Less cost reimbursements	<u>(6,567)</u>	<u>(10,583)</u>
Engineering costs, net	27,641	15,855
Total RD&E, net	<u>\$ 45,019</u>	<u>\$ 33,562</u>

As expected, net RD&E expenses for 2010 were higher than 2009 due to further investment in the development of new innovative technologies, including the development of systems and devices. Total RD&E costs incurred in connection with our medical device initiatives were \$20.3 million during 2010 compared to \$13.2 million in 2009. During 2010 we also received a lower level of customer cost reimbursements compared to 2009. These cost reimbursements can vary significantly from period to period due to the timing of the achievement of milestones on development projects.

### ***Electrochem Litigation Charge (Gain)***

In 2009, a Louisiana jury found in favor of a former Electrochem customer on their claims made in connection with a failed business transaction dating back to 1997. During 2009, we accrued \$34.5 million in connection with this litigation after the unfavorable jury verdict. In the fourth quarter of 2010, we settled this litigation for \$25 million and accordingly recognized a \$9.5 million gain. See Note 14 "Commitments and Contingencies" of the Notes to Consolidated Financial Statements contained in Item 8 of this report.

### ***Intangible Asset Write-Down***

As a result of the successful rebranding of our Greatbatch Medical segment, during 2009, we wrote-down our non-Greatbatch trademarks and tradenames by \$15.9 million, which is included in the results for our Greatbatch Medical segment. This charge was recorded based upon management's decision to discontinue use of the associated tradenames and its determination that there would be no market participants willing to purchase the previously acquired tradenames.

### ***Other Operating Expenses, Net***

Other operating expenses, net were comprised of the following (in thousands):

	<b>Year Ended</b>	
	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Orthopaedic facility optimization <sup>(a)</sup>	\$ 225	\$ -
2007 & 2008 facility shutdowns and consolidations <sup>(a)</sup>	1,348	7,069
Integration costs <sup>(b)</sup>	42	3,077
Asset dispositions, severance and other <sup>(c)</sup>	2,943	948
Total other operating expenses, net	<u>\$ 4,558</u>	<u>\$ 11,094</u>

- (a) See Note 12 “Other Operating Expenses, Net” of the Notes to Consolidated Financial Statements contained in Item 8 of this report.
- (b) For 2010 and 2009, we incurred costs related to the integration of the companies acquired in 2007 and 2008. The integration initiatives include the implementation of the Oracle ERP system, training and compliance programs as well as the implementation of lean manufacturing and six sigma initiatives. The expenses are primarily for consultants, relocation and travel costs that will not be required after the integrations are completed.
- (c) During the fourth quarter of 2010, we consolidated our Greatbatch Medical business. As part of this consolidation, there was a realignment of resources in which certain positions globally were eliminated and restructured. The severance charges associated with this realignment were \$2.3 million of which \$0.7 million were paid in the fourth quarter of 2010, and the remaining amounts paid in 2011. During 2009, we incurred approximately \$0.6 million in severance charges in connection with various workforce reductions. During 2010 and 2009, we recorded write-downs in connection with various asset disposals, which were partially offset by insurance proceeds received.

### ***Interest Expense and Interest Income***

Interest expense, which includes noncash discount amortization, and interest income for 2010 decreased in comparison to the same periods of 2009, primarily due to the repayment of \$78 million of debt.

### ***Other (Income) Expense, Net***

Other (income) expense, net primarily includes the impact of foreign currency exchange rate fluctuations on our transactions denominated in foreign currencies.

### ***Provision for Income Taxes***

During the fourth quarter of 2010, the research and development tax credit was extended for both 2010 and 2011, retroactive to the beginning of 2010. As a result, the fourth quarter 2010 GAAP and adjusted effective tax rates include the benefit of approximately \$1.0 million representing the cumulative catch-up adjustment for this credit related to the first three quarters of 2010. The 2010 effective tax rate includes the favorable impact of the resolution of tax audits and the lapse of statutes of limitation on certain tax items. See Note 13 “Income Taxes” of the Notes to Consolidated Financial Statements contained at Item 8 of this report for a reconciliation of the U.S. statutory rate to our effective tax rate (benefit).

### **Liquidity and Capital Resources**

	At	
	December 30, 2011	December 31, 2010
(Dollars in thousands)		
Cash and cash equivalents	\$ 36,508	\$ 22,883
Working capital	\$ 170,907	\$ 150,922
Current ratio	2.82	3.49

The increase in cash and cash equivalents, and working capital primarily relates to cash flow from operations of \$89.9 million for 2011 offset by \$22 million of cash used to purchase property, plant and equipment and \$66.5 million of cash paid to acquire Micro Power, which had \$12.0 million of net working capital. During the year, we repaid \$40 million of our long-term debt which was offset by the \$45 million borrowed to help fund the Micro Power acquisition. Of the \$36.5 million of cash on hand as of December 30, 2011, \$7.2 million is being held at our European subsidiaries and is considered permanently reinvested in those subsidiaries. Thus, these funds cannot be repatriated without being subject to U.S. taxation but may be used to fund the planned capital investments in those entities as discussed under “Cost Savings and Consolidation Efforts” of this Item 7.

**Revolving Line of Credit** – On June 24, 2011, we amended and extended our revolving credit facility (the “2011 Credit Facility”) to replace our then existing credit facility, which had an expiration date of May 22, 2012. The 2011 Credit Facility provides a \$400 million secured revolving credit facility, which can be increased to \$600 million upon our request and approval by a majority of the lenders. The 2011 Credit Facility also contains a \$15 million letter of credit subfacility and a \$15 million swingline subfacility. The 2011 Credit Facility has a maturity date of June 24, 2016; provided, however, if our convertible notes are not repaid in full, modified or refinanced before March 1, 2013, the maturity date of the 2011 Credit Facility shall be March 1, 2013.

The 2011 Credit Facility is supported by a consortium of fourteen banks with no bank controlling more than 19% of the facility. As of December 30, 2011, each bank supporting the 2011 Credit Facility has an S&P credit rating of at least BBB or better, which is considered investment grade.

The 2011 Credit Facility requires us to maintain a rolling four quarter ratio of adjusted EBITDA to interest expense of at least 3.0 to 1.0. For the twelve month period ended December 30, 2011, our ratio of adjusted EBITDA to interest expense, calculated in accordance with our credit agreement, was 18.3 to 1.00, well above the required limit. The 2011 Credit Facility also requires us to maintain a total leverage ratio of not greater than 4.5 to 1.0 through December 30, 2011 and not greater than 4.0 to 1.0 from December 31, 2011 and thereafter. As of December 30, 2011, our total leverage ratio, calculated in accordance with our credit agreement, was 2.06 to 1.00, well below the required limit.

The 2011 Credit Facility contains customary events of default. Upon the occurrence and during the continuance of an event of default, a majority of the lenders may declare the outstanding advances and all other obligations under the 2011 Credit Facility immediately due and payable. See Note 8 “Debt” of the Notes to Consolidated Financial Statements contained in Item 8 of this report.

As of December 30, 2011, we had \$345 million of borrowing capacity available under the 2011 Credit Facility. This amount may vary from period to period based upon our debt and EBITDA levels, which impacts the covenant calculations discussed above. We believe that our cash flow from operations and the 2011 Credit Facility provide adequate liquidity to meet our short and long term funding needs.

**Operating activities** – Cash flows from operating activities for 2011 were \$89.9 million compared to \$76.9 million for 2010. Cash flows from operating activities for 2010 was unfavorably impacted by the \$25 million (\$16.3 million net of tax) Electrochem Litigation settlement. See Note 14 “Commitments and Contingencies” of the Notes to Consolidated Financial Statements contained in Item 8 of this report. The remaining decrease in cash flows from operating activities from the prior year is primarily due to an increase in accounts receivable due to the timing of receipts with one of our larger customers offset by an increase in accrued expenses due to higher performance based compensation accruals.

**Investing activities** – Net cash used in investing activities for 2011 was \$80.4 million compared to \$13.9 million for 2010. This increase was primarily related to the cash payments made for the acquisition of Micro Power of \$66.5 million, as well as the \$6.3 million of additional investments made in property, plant and equipment primarily related to the construction of our new Orthopaedics manufacturing facility in Allen County, IN. These additional expenditures were partially offset by the net proceeds received from the sale of a cost method investment of \$10.4 million. Our current expectation is that capital spending for 2012 will be in the range of \$30 million to \$40 million, of which approximately half is discretionary in nature. These planned capital investments primarily relate to our various cost savings and consolidation initiatives. See “Cost Savings and Consolidation Efforts,” in this Item 7, for further details on these initiatives.

We anticipate that cash on hand along with cash flow from operations and availability under the 2011 Credit Facility will be sufficient to fund these capital expenditures. As part of our strategy to grow and diversify our revenue base, we have and will continue to consider strategically targeted and opportunistic acquisitions.

***Financing activities*** – Net cash provided by financing activities for 2011 was \$3.7 million compared to cash used of \$78.9 million for the prior year period. During 2011, we repaid \$40 million of long-term debt which was more than offset by the additional \$45 million borrowed near the end of the year to help fund the Micro Power acquisition. Going forward, we expect excess cash flow from operations to primarily be used to pay down outstanding debt as well as to fund our various capital projects.

***Capital Structure*** – As of December 30, 2011, our capital structure consisted of \$197.8 million of convertible subordinated notes, \$55.0 million of debt under our revolving line of credit and 23.4 million shares of common stock outstanding. Additionally, we had \$36.5 million in cash and cash equivalents, which we believe is sufficient to meet our short-term operating cash needs. If necessary, we currently have access to \$345 million of borrowing capacity under the 2011 Credit Facility and are authorized to issue 100 million shares of common stock and 100 million shares of preferred stock. The market value of our outstanding common stock since our initial public offering has exceeded our book value; accordingly, we believe that if needed we can access public markets to raise additional capital. Our capital structure allows us to support our internal growth and provides liquidity for corporate development initiatives. We continuously evaluate our capital structure, including our convertible notes, as it relates to our anticipated long-term funding needs. Changes to our capital structure may occur as a result of this analysis, or changes in market conditions.

#### **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 party to various legal actions arising in the normal course of business. A description of pending legal actions against the Company is set forth at Note 14 “Commitments and Contingencies” of the Notes to Consolidated Financial Statements contained at Item 8 of this report. We do not believe that the ultimate resolution of any individual pending legal action will have a material effect on our consolidated results of operations, financial position or cash flows. However, litigation is subject to inherent uncertainties. If an unfavorable ruling(s) were to occur, there exists the possibility of a material impact in the period in which the ruling occurs.

## Contractual Obligations

The following table summarizes our contractual obligations at December 30, 2011:

CONTRACTUAL OBLIGATIONS	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Debt obligations <sup>(a)</sup>	\$ 265,026	\$ 5,688	\$ 202,482	\$ 56,856	\$ -
Operating lease obligations <sup>(b)</sup>	16,694	3,347	5,681	4,771	2,895
Purchase obligations <sup>(b)</sup>	31,602	27,775	397	3,230	200
Foreign currency contracts <sup>(b)</sup>	10,200	10,200	-	-	-
Defined benefit plan obligations <sup>(c)</sup>	11,465	773	1,981	2,074	6,637
Total contractual obligations	<u>\$ 334,987</u>	<u>\$ 47,783</u>	<u>\$ 210,541</u>	<u>\$ 66,931</u>	<u>\$ 9,732</u>

(a) Includes the annual interest expense on our convertible subordinated notes of 2.25%, which is paid semi-annually. Amounts also include the expected interest expense on the \$55.0 million outstanding on the 2011 Credit Facility based upon the period end weighted average interest rate of 2.25%. See Note 8 “Debt” of the Notes to Consolidated Financial Statements contained in Item 8 of this report.

(b) See Note 14 “Commitments and Contingencies” of the Notes to Consolidated Financial Statements contained in Item 8 of this report for additional information about our operating leases, purchase obligations and foreign currency contracts.

(c) Amounts represent estimated future payments under our defined benefit plans. See Note 9 “Employee Benefit Plans” of the Notes to Consolidated Financial Statements contained in Item 8 of this report for additional information about our defined benefit plan obligations. These amounts do not include any potential future contributions to our defined benefit plans that may be necessary if the rate of return earned on plan assets is not sufficient to fund the rate of increase of our liability. Future cash contributions may be required. As of December 30, 2011, our actuarially determined projected benefit obligation exceeded plan assets by \$5.6 million.

This table does not reflect \$1.6 million of unrecognized tax benefits as we are uncertain as to if or when such amounts may be settled. Refer to Note 13 “Income Taxes” of the Notes to Condensed Consolidated Financial Statements in this report for additional information about these unrecognized tax benefits.

We self-fund the medical insurance coverage provided to our U.S. based employees. Our risk is being limited through the use of stop loss insurance, which has an annual deductible of \$0.2 million per covered participant. The maximum aggregate loss (the sum of all claims under the \$0.2 million deductible) is limited to \$14.2 million with a maximum benefit of \$1.0 million. As of December 30, 2011, we had \$1.6 million accrued, related to our self-insurance obligations under our medical plan. This accrual is recorded in Accrued Expenses in the Consolidated Balance Sheet, and is primarily based upon claim history. For 2012, the maximum aggregate loss limit was lowered to \$13.5 million. This table does not reflect any potential future payments for self-insured medical claims.

We were a member of a group self-insurance trust that provided workers’ compensation benefits to our employees in Western New York (the “Trust”). Based on actual experience, we could receive a refund or be assessed additional contributions for workers’ compensation claims. 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 those obligations. During 2011, we were notified by the Trust of its intention to cease operations at the end of 2011 and were assessed \$0.6 million as an estimate of our pro-rata share of future costs related to the Trust. This amount was accrued and paid in 2011. Beginning in 2012, we will utilize traditional insurance to provide workers’ compensation benefits to our employees.

## **Inflation**

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

## **Impact of Recently Issued Accounting Standards**

In the normal course of business, we evaluate all new accounting pronouncements issued by the Financial Accounting Standards Board (“FASB”), SEC, Emerging Issues Task Force (“EITF”), American Institute of Certified Public Accountants (“AICPA”) or other authoritative accounting body to determine the potential impact they may have on our Consolidated Financial Statements. In 2011, the FASB issued Accounting Standards Update (“ASU”) No. 2011-11 “Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities,” ASU No. 2011-08 “Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment,” ASU No. 2011-05 “Comprehensive Income (Topic 220): Presentation of Comprehensive Income,” and ASU No. 2011-04 “Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.” See Note 1 “Summary of Significant Accounting Policies” of the Notes to Consolidated Financial Statements contained in Item 8 of this report for additional information about these recently issued accounting standards and their potential impact on our financial condition or results of operations.

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

**Foreign Currency** – We have significant foreign operations in France, Mexico and Switzerland, which expose the Company to foreign currency exchange rate fluctuations due to transactions denominated in Euros, Mexican pesos and Swiss francs, respectively. We continuously evaluate our foreign currency risk and will take action from time to time in order to best mitigate these risks, which includes the use of various derivative instruments such as forward currency exchange contracts. A hypothetical 10% change in the value of the U.S. dollar in relation to our most significant foreign currency exposures would have had an impact of approximately \$10 million on our annual sales. This amount is not indicative of the hypothetical net earnings impact due to offsetting impacts on cost of sales and operating expenses in those currencies. We estimate that foreign currency exchange rate fluctuations during 2011 increased sales in comparison to 2010 by approximately \$8 million.

In July 2010 and February 2011, we entered into forward contracts to purchase 6.6 million and 3.7 million, respectively, Mexican pesos per month through December 2011 at an exchange rate of 13.2231 pesos and 12.2761 pesos per one U.S. dollar, respectively. In September 2011, we entered into forward contracts to purchase 6.5 million and 4.9 million Mexican pesos per month beginning in January 2012 through December 2012 at an exchange rate of 13.0354 pesos and 14.0287 pesos per one U.S. dollar, respectively. These contracts were entered into in order to hedge the risk of peso-denominated payments associated with a portion of the operations at our Tijuana, Mexico facility and are being accounted for as cash flow hedges.

As of December 30, 2011, these contracts had a negative fair value of \$0.5 million, which is recorded within Accrued Expenses in the Consolidated Balance Sheet. The amount recorded as a reduction of Cost of Sales during 2011 related to these forward contracts was \$0.6 million. No portion of the change in fair value of our foreign currency contracts during 2011 was considered ineffective.

We translate all assets and liabilities of our foreign operations, where the U.S. dollar is not the functional currency, at the period-end exchange rate and translate sales and expenses at the average exchange rates in effect during the period. The net effect of these translation adjustments is recorded in the Consolidated Financial Statements as Comprehensive Income (Loss). The translation adjustment for 2011 was a \$0.7 million loss. Translation adjustments are not adjusted for income taxes as they relate to permanent investments in our foreign subsidiaries. Net foreign currency transaction gains and losses included in Other (Income) Expense, Net amounted to a loss of \$0.1 million for 2011. A hypothetical 10% change in the value of the U.S. dollar in relation to our most significant foreign currency net assets would have had an impact of approximately \$10 million on our foreign net assets as of December 30, 2011.

**Interest Rates** – Interest rates on our revolving line of credit reset, at our option, based upon the prime rate or LIBOR rate, thus subjecting us to interest rate risk. To help offset this risk, from time to time, we enter into receive floating-pay fixed interest rate swaps indexed to the same applicable index rate as the debt it is hedging. The objective of these swaps is to hedge against potential changes in cash flows on our outstanding revolving line of credit. No credit risk is hedged. Our interest rate swaps are accounted for as cash flow hedges.

As of December 30, 2011, we had \$55 million outstanding on the 2011 Credit Facility and no interest rate swaps outstanding. See Note 8 “Debt” of the Notes to Consolidated Financial Statements in this report for additional information about our interest rate swap contracts.

No portion of the change in fair value of our interest rate swaps outstanding during 2011 was considered ineffective. The amount recorded as additional Interest Expense related to the interest rate swaps was \$0.4 million during 2011.

A hypothetical one percentage point change in the prime rate on the \$55 million of floating rate revolving line of credit debt outstanding at December 30, 2011 would have an impact of approximately \$0.6 million on our interest expense.

## **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 30, 2011 and December 31, 2010

Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 30, 2011, December 31, 2010 and January 1, 2010

Consolidated Statements of Cash Flows for the years ended December 30, 2011, December 31, 2010 and January 1, 2010

Consolidated Statements of Stockholders' Equity for the years ended December 30, 2011, December 31, 2010 and January 1, 2010

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 30, 2011, 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 30, 2011 is effective.

In conducting the evaluation of the effectiveness of internal control over financial reporting as of December 30, 2011, as permitted by the guidance issued by the Office of the Chief Accountant of the Securities and Exchange Commission, management excluded the following subsidiary acquired in 2011:

- Micro Power Electronics, Inc.

This subsidiary represented approximately 15% and 10% of net and total assets, respectively, and 0.4% of revenues of the consolidated financial statement amounts as of and for the year ended December 30, 2011. See Note 2 – “Acquisitions” for a discussion of this acquisition and its impact on the Company's Consolidated Financial Statements.

The effectiveness of internal control over financial reporting as of December 30, 2011 has been audited by Deloitte & Touche LLP, the Company's independent registered public accounting firm.

Dated: February 28, 2012



Thomas J. Hook  
President & Chief Executive Officer



Thomas J. Mazza  
Senior Vice President & Chief Financial Officer

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Greatbatch, Inc. and subsidiary (the "Company") as of December 30, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Micro Power Electronics, Inc., which was acquired on December 15, 2011 and whose financial statements constitute 15% and 10% of net and total assets, respectively, and 0.4% of revenues of the consolidated financial statement amounts as of and for the year ended December 30, 2011. Accordingly, our audit did not include the internal control over financial reporting at Micro Power Electronics, Inc. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

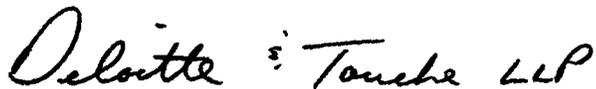
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2011, 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 30, 2011 of the Company and our report dated February 28, 2012 expressed an unqualified opinion on those consolidated financial statements and consolidated financial statement schedule.

The image shows a handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

Williamsville, New York  
February 28, 2012

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

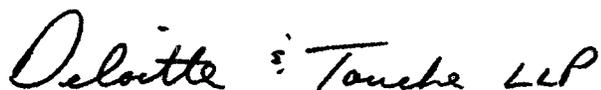
To the Board of Directors and Stockholders of  
Greatbatch, Inc.  
Clarence, New York

We have audited the accompanying consolidated balance sheets of Greatbatch, Inc. and subsidiary (the "Company") as of December 30, 2011 and December 31, 2010, and the related consolidated statements of operations and comprehensive income (loss), cash flows, and stockholders' equity for each of the three years in the period ended December 30, 2011. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15. These consolidated financial statements and consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and consolidated 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 30, 2011 and December 31, 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2011, 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.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 30, 2011, 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 28, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

The image shows a handwritten signature in black ink that reads "Deloitte Touche LLP". The signature is written in a cursive, flowing style.

Williamsville, New York  
February 28, 2012

**GREATBATCH, INC.**  
**CONSOLIDATED BALANCE SHEETS**

(in thousands except share and per share data)	At	
	December 30, 2011	December 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 36,508	\$ 22,883
Accounts receivable, net of allowance for doubtful accounts of \$1.9 million in 2011 and \$1.8 million in 2010	101,946	70,947
Inventories	109,913	101,440
Refundable income taxes	1,292	2,763
Deferred income taxes	7,828	7,398
Prepaid expenses and other current assets	7,469	6,078
Total current assets	264,956	211,509
Property, plant and equipment, net	145,806	146,380
Amortizing intangible assets, net	100,258	75,114
Indefinite-lived intangible assets	20,288	20,288
Goodwill	338,653	307,451
Deferred income taxes	2,450	2,427
Other assets	8,936	13,807
Total assets	\$ 881,347	\$ 776,976
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 40,665	\$ 27,989
Deferred income taxes	845	514
Accrued expenses	52,539	32,084
Total current liabilities	94,049	60,587
Long-term debt	235,950	220,629
Deferred income taxes	75,203	64,290
Other long-term liabilities	8,862	4,641
Total liabilities	414,064	350,147
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, authorized 100,000,000 shares; no shares issued or outstanding in 2011 or 2010	-	-
Common stock, \$0.001 par value, authorized 100,000,000 shares; 23,466,128 shares issued and 23,406,023 shares outstanding in 2011 23,319,492 shares issued and 23,256,897 shares outstanding in 2010	23	23
Additional paid-in capital	307,196	298,405
Treasury stock, at cost, 60,105 shares in 2011 and 62,595 shares in 2010	(1,387)	(1,469)
Retained earnings	152,522	119,400
Accumulated other comprehensive income	8,929	10,470
Total stockholders' equity	467,283	426,829
Total liabilities and stockholders' equity	\$ 881,347	\$ 776,976

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

**GREATBATCH, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**AND COMPREHENSIVE INCOME (LOSS)**

(in thousands except per share data)	Year Ended		
	December 30, 2011	December 31, 2010	January 1, 2010
Sales	\$ 568,822	\$ 533,425	\$ 521,821
Cost of sales	388,469	359,844	355,402
Gross profit	180,353	173,581	166,419
Operating expenses:			
Selling, general and administrative expenses	72,548	64,510	70,294
Research, development and engineering costs, net	45,513	45,019	33,562
Electrochem Litigation charge (gain) (Note 14)	-	(9,500)	34,500
Intangible asset write-down	-	-	15,921
Other operating expenses, net	593	4,558	11,094
Total operating expenses	118,654	104,587	165,371
Operating income	61,699	68,994	1,048
Interest expense	16,928	18,519	20,071
Interest income	(21)	(10)	(324)
(Gain) loss on cost method investments, net	(4,232)	150	-
Other (income) expense, net	632	1,010	(522)
Income (loss) before provision (benefit) for income taxes	48,392	49,325	(18,177)
Provision (benefit) for income taxes	15,270	16,187	(9,176)
Net income (loss)	<u>\$ 33,122</u>	<u>\$ 33,138</u>	<u>\$ (9,001)</u>
Earnings (loss) per share:			
Basic	\$ 1.42	\$ 1.44	\$ (0.39)
Diluted	\$ 1.40	\$ 1.40	\$ (0.39)
Weighted average shares outstanding:			
Basic	23,258	23,070	22,926
Diluted	23,636	23,802	22,926
Comprehensive income (loss):			
Net income (loss)	\$ 33,122	\$ 33,138	\$ (9,001)
Foreign currency translation gain (loss)	(704)	7,896	4,562
Net change in cash flow hedges, net of tax	(271)	1,027	(200)
Defined benefit plan liability adjustment, net of tax	(566)	(601)	862
Comprehensive income (loss)	<u>\$ 31,581</u>	<u>\$ 41,460</u>	<u>\$ (3,777)</u>

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

**GREATBATCH, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)	Year Ended		
	December 30, 2011	December 31, 2010	January 1, 2010
<b><u>Cash flows from operating activities:</u></b>			
Net income (loss)	\$ 33,122	\$ 33,138	\$ (9,001)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	47,695	46,447	47,229
Stock-based compensation	12,082	6,884	5,204
(Gain) loss on cost method investments, net	(4,232)	150	-
Electrochem Litigation charge (gain)	-	(9,500)	34,500
Electrochem Litigation settlement	-	(25,000)	-
Intangible asset write-down	-	-	15,921
Other non-cash (gains) losses	(676)	743	(559)
Deferred income taxes	8,776	15,419	(10,120)
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable	(13,477)	10,922	5,876
Inventories	(2,139)	7,406	6,898
Prepaid expenses and other assets	(590)	2,111	(2,364)
Accounts payable	4,236	(7,568)	(12,668)
Accrued expenses	3,678	(1,472)	(5,050)
Income taxes payable	1,446	(2,795)	(4,100)
Net cash provided by operating activities	<u>89,921</u>	<u>76,885</u>	<u>71,766</u>
<b><u>Cash flows from investing activities:</u></b>			
Acquisition of property, plant and equipment	(22,489)	(16,140)	(19,674)
Proceeds from sale of property, plant and equipment	212	2,537	114
Proceeds from (purchase) of cost method investments, net	10,315	-	(1,050)
Acquisitions, net of cash acquired	(66,493)	-	-
Other investing activities	(1,934)	(321)	(531)
Net cash used in investing activities	<u>(80,389)</u>	<u>(13,924)</u>	<u>(21,141)</u>
<b><u>Cash flows from financing activities:</u></b>			
Principal payments of long-term debt	(40,000)	(78,450)	(46,000)
Proceeds from issuance of long-term debt	45,000	-	12,000
Issuance of common stock	2,401	659	212
Payment of debt issuance costs	(2,213)	-	-
Other financing activities	(1,500)	(1,030)	(718)
Net cash provided by (used in) financing activities	<u>3,688</u>	<u>(78,821)</u>	<u>(34,506)</u>
Effect of foreign currency exchange rates on cash and cash equivalents	405	879	(318)
Net increase (decrease) in cash and cash equivalents	<u>13,625</u>	<u>(14,981)</u>	<u>15,801</u>
Cash and cash equivalents, beginning of year	22,883	37,864	22,063
Cash and cash equivalents, end of year	<u>\$ 36,508</u>	<u>\$ 22,883</u>	<u>\$ 37,864</u>

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

**GREATBATCH, INC.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(in thousands)	Common Stock		Additional Paid-In Capital	Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
At January 3, 2009	22,971	\$ 23	\$ 283,322	(28)	\$ (741)	\$ 95,263	\$ (3,076)	\$ 374,791
Stock-based compensation	-	-	5,204	-	-	-	-	5,204
Net shares issued (acquired) under stock incentive plans	24	-	214	(33)	(635)	-	-	(421)
Income tax liability from stock options, restricted stock and restricted stock units	-	-	(88)	-	-	-	-	(88)
Shares contributed to 401(k) Plan	195	-	3,274	28	741	-	-	4,015
Net loss	-	-	-	-	-	(9,001)	-	(9,001)
Total other comprehensive income, net	-	-	-	-	-	-	5,224	5,224
At January 1, 2010	23,190	23	291,926	(33)	(635)	86,262	2,148	379,724
Stock-based compensation	-	-	6,884	-	-	-	-	6,884
Net shares issued (acquired) under stock incentive plans	129	-	179	(30)	(834)	-	-	(655)
Income tax liability from stock options, restricted stock and restricted stock units	-	-	(584)	-	-	-	-	(584)
Net income	-	-	-	-	-	33,138	-	33,138
Total other comprehensive income, net	-	-	-	-	-	-	8,322	8,322
At December 31, 2010	23,319	23	298,405	(63)	(1,469)	119,400	10,470	426,829
Stock-based compensation	-	-	7,037	-	-	-	-	7,037
Net shares issued under stock incentive plans	147	-	1,891	3	82	-	-	1,973
Income tax liability from stock options, restricted stock and restricted stock units	-	-	(137)	-	-	-	-	(137)
Net income	-	-	-	-	-	33,122	-	33,122
Total other comprehensive loss, net	-	-	-	-	-	-	(1,541)	(1,541)
At December 30, 2011	23,466	\$ 23	\$ 307,196	(60)	\$ (1,387)	\$ 152,522	\$ 8,929	\$ 467,283

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

**GREATBATCH, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation** – The consolidated financial statements include the accounts of Greatbatch, Inc. and its wholly owned subsidiary Greatbatch Ltd. (collectively, the “Company” or “Greatbatch”). All intercompany balances and transactions have been eliminated in consolidation.

**Nature of Operations** – The Company operates its business in two reportable segments – Greatbatch Medical and Electrochem Solutions (“Electrochem”). The Company’s customers include large multi-national original equipment manufacturers (“OEMs”). The Greatbatch Medical segment designs and manufactures medical devices and components primarily for the Cardiac Rhythm Management (“CRM”), Neuromodulation, Vascular Access and Orthopaedic markets. Additionally, Greatbatch Medical offers value-added assembly and design engineering services for products that incorporate Greatbatch Medical components. As a result of the strategy put in place over three years ago, Greatbatch Medical now offers its customers complete medical devices including design, development, manufacturing, regulatory submission and supporting worldwide distribution. This medical device strategy is being facilitated through the QiG Group and leverages the component technology of Greatbatch Medical and Electrochem in the Company’s core markets: Cardiovascular, Neuromodulation and Orthopaedic. Once the QiG Group designs and develops a medical device, it is manufactured by Greatbatch Medical. The operating expenses (RD&E, SG&A) of the QiG Group are included within the Greatbatch Medical segment.

Electrochem provides technology solutions where safety, reliability, quality and durability are critical. Electrochem’s customized primary (non-rechargeable) and secondary (rechargeable) battery solutions are used in markets such as energy, portable medical, military, environmental and more. Electrochem’s product lines cover a number of highly-customized battery-powered applications in remote and demanding environments, including down hole drilling tools, military communication devices, automated external defibrillators, oceanographic buoys and more. Electrochem’s primary and secondary power solutions and wireless sensing systems are used in markets where failure is not an option.

**Fiscal Year End** – The Company utilizes a fifty-two, fifty-three week fiscal year ending on the Friday nearest December 31<sup>st</sup>. Fiscal years 2011, 2010 and 2009 ended on December 30, 2011, December 31, 2010 and January 1, 2010, respectively. Fiscal years 2011, 2010 and 2009 all contained fifty-two weeks.

**Fair Value Measurements** – Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the “exit price”) in an orderly transaction between market participants at the measurement date. Accounting Standards Codification (“ASC”) establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company’s assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

**GREATBATCH, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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Level 1 — Valuation is based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Level 1 valuations do not entail a significant degree of judgment.

Level 2 — Valuation is determined from quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in markets that are not active or by model-based techniques in which all significant inputs are observable in the market.

Level 3 — Valuation is based on unobservable inputs that are significant to the overall fair value measurement. The degree of judgment in determining fair value is greatest for Level 3 valuations.

The availability of observable inputs can vary and is affected by a wide variety of factors, including, the type of asset/liability, whether the asset/liability is established in the marketplace, and other characteristics particular to the valuation. To the extent that a valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, assumptions are required to reflect those that market participants would use in pricing the asset or liability at the measurement date.

The carrying amount of cash and cash equivalents, trade receivables and accounts payable, approximated their fair value as of December 30, 2011 based upon the short-term nature of these instruments. Note 17 “Fair Value Measurements” contains additional information on assets and liabilities recorded at fair value in the consolidated financial statements.

***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.

***Concentration of Credit Risk*** – Financial instruments that potentially subject the Company to concentration of credit risk consist principally of accounts receivable. A significant portion of the Company’s sales are to four 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 partially mitigated due to the stability of those customers. The Company performs on-going credit evaluations of its customers. Note 19 “Business Segment, Geographic and Concentration Risk Information” contains information on sales and accounts receivable for these customers. The Company maintains cash deposits with major banks, which from time to time may exceed insured limits. The Company performs on-going credit evaluations of its banks.

***Allowance for Doubtful Accounts*** – The Company provides credit, in the normal course of business, to its customers in the form of trade receivables. Credit is extended based on evaluation of a customer’s financial condition and collateral is not required. The Company maintains an allowance for those customer receivables that it does not expect to collect. The Company accrues its estimated losses from uncollectable accounts receivable to the allowance based upon recent historical

**GREATBATCH, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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experience, the length of time the receivable has been outstanding and other specific information as it becomes available. Provisions to the allowance for doubtful accounts are charged to current operating expenses. Actual losses are charged against this allowance when incurred.

***Inventories*** – Inventories are stated at the lower of cost, determined using the first-in first-out method, or market. Write-downs for excess, obsolete or expired inventory are based primarily on how long the inventory has been held as well as our estimates of forecasted net sales of that product. A significant change in the timing or level of demand for our products may result in recording additional write-downs for excess, obsolete or expired inventory in the future. Note 4 “Inventories” contains additional information on the Company’s inventory.

***Property, Plant and Equipment*** – Property, plant and equipment is carried at cost less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, as follows: buildings and building improvements 7-40 years; machinery and equipment 3-8 years; office equipment 3-10 years; and leasehold improvements over the remaining lives of the improvements or the lease term, if less. The cost of repairs and maintenance are expensed as incurred; renewals and betterments are capitalized. Upon retirement or sale of an asset, its cost and related accumulated depreciation or amortization is removed from the accounts and any gain or loss is recorded in operating income or expense. Note 5 “Property, Plant and Equipment” contains additional information on the Company’s property, plant and equipment.

***Business Combinations*** – The Company records its business combinations under the acquisition method of accounting. Under the acquisition method of accounting, the Company allocates the purchase price of each acquisition to the tangible and identifiable intangible assets acquired and liabilities assumed based on their respective fair values at the date of acquisition. The fair value of identifiable intangible assets is based upon detailed valuations that use various assumptions made by management. Any excess of the purchase price over the fair value of net tangible and identifiable intangible assets acquired is allocated to goodwill. All direct acquisition-related costs are expensed as incurred. Note 2 “Acquisitions” contains additional information on the Company’s acquisitions.

***Amortizing Intangible Assets*** – Amortizing intangible assets consists primarily of purchased technology, patents and customer lists. The Company amortizes its definite-lived intangible assets over their estimated useful lives utilizing an accelerated or straight-line method of amortization, which approximates the projected distribution of cash flows used to fair value those intangible assets at the time of acquisition. When the straight-line method of amortization is utilized, the estimated useful life of the intangible asset is shortened to assure that recognition of amortization expense corresponds with the distribution of expected cash flows. The amortization period for the Company’s amortizing intangible assets are as follows: purchased technology and patents 5-15 years; customer lists 7-20 years and other intangible assets 1-10 years. Note 6 “Intangible Assets” contains additional information on the Company’s amortizing intangible assets.

***Impairment of Long-Lived Assets*** – The Company assesses the impairment of definite-lived long-lived assets or asset groups when events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that are considered in deciding when to perform an impairment review include: A significant decrease in the market price of the asset or asset group; A significant change in the extent or manner in which a long-lived asset or asset group is being used or in its physical condition; A significant change in legal factors or in the business climate that could affect the value of a long-lived

**GREATBATCH, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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asset (asset group), including an action or assessment by a regulator; An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction; A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group; or a current expectation that, more likely than not, a long-lived asset or asset group will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The term more likely than not refers to a level of likelihood that is more than 50 percent.

Potential recoverability is measured by comparing the carrying amount of the asset or asset group to its related total future undiscounted cash flows. If the carrying value is not recoverable, the asset or asset group is considered to be impaired. Impairment is measured by comparing the asset or asset group's carrying amount to its fair value. When it is determined that useful lives of assets are shorter than originally estimated, and no impairment is present, the rate of depreciation is accelerated in order to fully depreciate the assets over their new shorter useful lives.

Goodwill and certain trademarks and tradenames recorded 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 as described above. 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 and market multiples. Indefinite lived intangible assets are assessed for impairment on the last day of each fiscal year, or more frequently if certain events occur as described above, by comparing the fair value of the intangible asset to its 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 has occurred during 2011, 2010 and 2009. During 2009, the Company recognized a \$15.9 million impairment charge related to its trademarks and tradenames. No impairment of the Company's trademarks and tradenames occurred during 2011 or 2010. Note 6 "Intangible Assets" contains additional information on the Company's intangible assets.

***Other Long-Term Assets*** – Other long-term assets includes deferred fees incurred in connection with the Company's issuance of its convertible subordinated notes and revolving line of credit. These fees are amortized to Interest Expense using the effective interest method over the period from the date of issuance to the put option date (if applicable) or the contractual maturity date, whichever is earlier. The amortization of deferred fees is included in Depreciation and Amortization in the Consolidated Statements of Cash Flows. Note 8 "Debt" contains additional information on the Company's deferred financing fees.

Other long-term assets also include investments in equity securities of entities which the Company does not have the ability to exercise significant influence over and are accounted for using the cost method. Each reporting period, management evaluates these investments to determine if there are any events or circumstances that are likely to have a significant effect on the fair value of the investment. Examples of such impairment indicators include, but are not limited to: a recent sale or offering of similar shares of the investment at a price below the Company's cost basis; a significant deterioration in earnings performance; a significant change in the regulatory, economic or

**GREATBATCH, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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technological environment of the investee; or a significant doubt about an investee's ability to continue as a going concern. If an impairment indicator is identified, management will estimate the fair value of the investment and compare it to its carrying value. The estimation of fair value considers all available financial information related to the investee, including, but not limited to, valuations based on recent third-party equity investments in the investee. If the fair value of the investment is less than its carrying value, the investment is impaired and a determination as to whether the impairment is other-than-temporary is made. Impairment is deemed to be other-than-temporary unless the Company has the ability and intent to hold the investment for a period sufficient for a market recovery up to the carrying value of the investment. Further, evidence must indicate that the carrying value of the investment is recoverable within a reasonable period. For other-than-temporary impairments, an impairment loss is recognized equal to the difference between the investment's carrying value and its fair value. The Company has determined that these investments are not considered variable interest entities. The Company's exposure related to these entities is limited to its recorded investment. These investments are in start-up research and development companies whose fair value is highly subjective in nature and subject to future fluctuations, which could be significant.

***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 income taxes 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.

It is the policy of the Company not to provide deferred taxes on the excess of the amount for financial reporting over the tax basis of the investment in its European subsidiaries that is essentially permanent in duration. This outside basis difference of approximately \$7.0 million as of December 30, 2011, which is primarily attributable to cumulative translation adjustments, and associated unrecognized deferred tax liability, would only become taxable on the sale of these subsidiaries.

The Company accounts for uncertain tax positions using a more likely than not recognition threshold. The evaluation of uncertain tax positions is based on factors including, but not limited to, changes in tax law, the measurement of tax positions taken or expected to be taken in tax returns, the effective settlement of matters subject to audit, new audit activity and changes in facts or circumstances related to a tax position. These tax positions are evaluated on a quarterly basis. The Company recognizes interest expense related to uncertain tax positions as Interest Expense. Penalties, if incurred, are recognized as a component of Selling, General and Administrative Expenses ("SG&A").

The Company and its subsidiary file a consolidated U.S. federal income tax return. State tax returns are filed on a combined or separate basis depending on the applicable laws in the jurisdictions where tax returns are filed. The Company also files foreign tax returns on a separate company basis in the countries in which it operates. See Note 13 "Income Taxes" for additional information.

***Convertible Subordinated Notes*** – For convertible debt instruments that may be settled in cash upon conversion, the Company accounts for the liability and equity components of those instruments in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods.

**GREATBATCH, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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Upon issuance, the Company determined the carrying amount of the liability component of CSN by measuring the fair value of a similar liability that does not have the associated conversion option. The carrying amount of the conversion option was then determined by deducting the fair value of the liability component from the initial proceeds received from the issuance of CSN.

The carrying amount of the conversion option was recorded in Additional Paid-In Capital with an offset to Long-Term Debt and is being amortized using the effective interest method over the period from the date of issuance to the contractual maturity date. Deferred financing fees incurred in connection with the issuance of CSN, were allocated proportionally to the proceeds of the liability and equity components. The deferred financing fees allocated to the debt component are being amortized using the effective interest method over the period from the date of issuance to contractual maturity date. The deferred financing fees allocated to the equity component were recorded as an offset to Additional Paid-In Capital. The amortization of discount and deferred fees related to the Company's convertible debt instruments is included in Depreciation and Amortization in the Consolidated Statements of Cash Flows. See Note 8 "Debt" for additional information.

***Derivative Financial Instruments*** – The Company recognizes all derivative financial instruments in its consolidated financial statements at fair value. Changes in the fair value of derivative instruments are recorded in earnings unless hedge accounting criteria are met. The Company designates its interest rate swaps (See Note 8) and foreign currency contracts (See Note 14) entered into as cash flow hedges. The effective portion of the changes in fair value of these cash flow hedges is recorded each period, net of tax, in Accumulated Other Comprehensive Income until the related hedged transaction occurs. Any ineffective portion of the changes in fair value of these cash flow hedges is recorded in earnings. In the event the hedged cash flow for forecasted transactions does not occur, or it becomes probable that they will not occur, the Company would reclassify the amount of any gain or loss on the related cash flow hedge to income (expense) at that time. Cash flows related to these derivative financial instruments are included in cash flows from operating activities.

***Revenue Recognition*** – The Company recognizes revenue when it is realized or realizable and earned. This occurs when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, the buyer is obligated to pay us (i.e., not contingent on a future event), the risk of loss is transferred, there is no obligation of future performance, collectability is reasonably assured and the amount of future returns can reasonably be estimated. With regards to the Company's customers (including distributors), those criteria are met at the time of shipment when title passes. The Company includes shipping and handling fees billed to customers in Sales. Shipping and handling costs associated with inbound and outbound freight are 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. These amounts were excluded from Sales and Cost of Sales recognized by the Company. The cost of these customer supplied component parts amounted to \$27.9 million, \$29.9 million and \$27.8 million in 2011, 2010 and 2009, respectively.

***Product Warranties*** – The Company allows customers to return defective or damaged products for credit, replacement, or exchange. The Company 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, through Cost of Sales, based upon recent historical experience and other specific information as it becomes available. Note 14 "Commitments and Contingencies" contains additional information on the Company's product warranties.

**GREATBATCH, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Research, Development and Engineering Costs, Net** – Research, development and engineering (“RD&E”) costs are expensed as incurred. The primary costs are salary and benefits for personnel, material costs used in development projects and subcontracting costs. 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. Note 11 “Research, Development and Engineering Costs, Net” contains additional information on the Company’s RD&E activities.

**Stock-Based Compensation** – The Company records compensation costs related to stock-based awards granted to employees based upon their estimated fair value on the grant date. Compensation cost for service-based awards is recognized ratably over the applicable vesting period. Compensation cost for nonmarket-based performance awards is reassessed each period and recognized based upon the probability that the performance targets will be achieved. Compensation cost for market-based performance awards is expensed ratably over the applicable vesting period and is recognized each period whether the performance metrics are achieved or not.

The Company utilizes the Black-Scholes option pricing model to estimate the fair value of stock options granted. For service-based and nonmarket-based performance restricted stock and restricted stock unit awards, the fair market value of the award is determined based upon the closing value of the Company’s stock price on the grant date. For market-based performance restricted stock unit awards, the fair market value of the award is determined utilizing a Monte Carlo simulation model, which projects the value of the Company’s stock under numerous scenarios and determines the value of the award based upon the present value of those projected outcomes.

The amount of stock-based compensation expense recognized is based on the portion of the awards that are ultimately expected to vest, excluding market and nonmarket performance award considerations discussed above. The Company estimates pre-vesting forfeitures at the time of grant by analyzing historical data and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. The total expense recognized over the vesting period will only be for those awards that ultimately vest, excluding market and nonmarket performance award considerations. Note 10 “Stock-Based Compensation” contains additional information on the Company’s stock-based compensation.

**Foreign Currency Translation** – The Company translates all assets and liabilities of its foreign subsidiaries, where the U.S. dollar is not the functional currency, at the period-end exchange rate and translates income and expenses at the average exchange rates in effect during the period. The net effect of this translation is recorded in the consolidated financial statements as Accumulated Other Comprehensive Income. Translation adjustments are not adjusted for income taxes as they relate to permanent investments in the Company’s foreign subsidiaries.

Net foreign currency transaction gains and losses are included in Other (Income) Expense, Net and amounted to a loss of \$0.1 million for 2011, a loss of \$0.9 million for 2010 and a gain \$0.7 million for 2009.

**Defined Benefit Plans** – The Company recognizes in its balance sheet as an asset or liability the overfunded or underfunded status of its defined benefit plans provided to its employees located in Mexico, Switzerland and France. This asset or liability is measured as the difference between the fair

**GREATBATCH, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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value of plan assets and the benefit obligation of those plans. For these plans, the benefit obligation is the projected benefit obligation, which is calculated based on actuarial computations of current and future benefits for employees. Actuarial gains or losses and prior service costs or credits that arise during the period, but are not included as components of net periodic benefit expense, are recognized as a component of Accumulated Other Comprehensive Income. Defined benefit expenses are charged to Cost of Sales, SG&A and RD&E expenses as applicable. Note 9 “Employee Benefit Plans” contains additional information on these costs.

***Earnings (Loss) Per Share (“EPS”)*** – Basic EPS is calculated by dividing Net Income (Loss) by the weighted average number of shares outstanding during the period. Diluted EPS is calculated by adjusting the weighted average number of shares outstanding for potential common shares, which consist of stock options, unvested restricted stock and restricted stock units and contingently convertible instruments.

Holders of the Company’s convertible subordinated notes may convert them into shares of the Company’s common stock under certain circumstances – See Note 8 “Debt.” The Company includes the effect of the conversion of these convertible notes in the calculation of diluted EPS using the if-converted method or the treasury method for instruments that may be settled in cash at the Company’s election and which the Company has the ability and intent to settle them in cash, as long as the effect is dilutive. For computation of EPS 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 (Loss) is adjusted for the calculation to add back interest expense on the convertible notes as well as unamortized discount and deferred financing fee amortization recorded during the period. Note 15 “Earnings (Loss) Per Share” contains additional information on the computation of the Company’s EPS.

***Comprehensive Income (Loss)*** – The Company’s comprehensive income (loss) as reported in the Consolidated Statements of Operations and Comprehensive Income (Loss) includes net income (loss), foreign currency translation adjustments, the net change in cash flow hedges, and defined benefit plan liability adjustments. The Consolidated Statements of Operations and Comprehensive Income (Loss) and Note 16 “Accumulated Other Comprehensive Income” contains additional information on the computation of the Company’s comprehensive income (loss).

***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.

***Recently Issued Accounting Pronouncements*** – In the normal course of business, Management evaluates all new accounting pronouncements issued by the Financial Accounting Standards Board (“FASB”), Securities and Exchange Commission (“SEC”), Emerging Issues Task Force (“EITF”), American Institute of Certified Public Accountants (“AICPA”) or other authoritative accounting bodies to determine the potential impact they may have on the Company’s Consolidated Financial Statements. Based upon this review, except as noted below, Management does not expect any of the recently issued accounting pronouncements, which have not already been adopted, to have a material impact on the Company’s Consolidated Financial Statements.

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In December 2011, the FASB issued Accounting Standards Update (“ASU”) No. 2011-11 “Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities.” This ASU requires companies to provide information about trading in financial instruments and related derivatives in expanded disclosures, creates new disclosure requirements about the nature of an entity’s rights of offset and related arrangements associated with its financial instruments and derivative instruments. The disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods therein, with retrospective application required. When adopted, this ASU will not have a material impact on the Company’s Consolidated Financial Statements as it only changes the disclosures surrounding the Company’s offsetting assets and liabilities.

In September 2011, the FASB issued ASU No. 2011-08 “Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment.” This ASU modifies the impairment test for goodwill intangibles. Under the revised guidance, entities performing their annual goodwill impairment test have the option of performing a qualitative assessment before calculating the fair value of the reporting unit (i.e., step 1 of the goodwill impairment test). If entities determine, on the basis of this qualitative assessment, that the fair value of the reporting unit is more likely than not (i.e., a likelihood of more than 50 percent) less than the carrying amount, the two-step goodwill impairment test would be required. ASU No. 2011-08 is effective for the Company beginning in fiscal year 2012. Early adoption is permitted. The Company did not adopt ASU No. 2011-08 for its 2011 annual goodwill impairment test. When adopted, this ASU will not have a material impact on the Company’s Consolidated Financial Statements as it only impacts the timing of when the Company is required to perform the two-step goodwill impairment test.

In June 2011, the FASB issued ASU No. 2011-05 “Comprehensive Income (Topic 220): Presentation of Comprehensive Income.” This ASU provides companies two choices for presenting net income and comprehensive income: in a single continuous statement, or in two separate, but consecutive, statements. Presenting comprehensive income in the statement of equity is no longer an option. ASU No. 2011-05 is effective for the Company beginning in fiscal year 2012. In December 2011, the FASB issued ASU No. 2011-12 “Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05,” which delays the effective date of certain provisions of ASU No. 2011-05 related to the presentation of reclassification adjustments out of accumulated other comprehensive income. When adopted, ASU No. 2011-05 is not expected to have a material impact on the Company’s Consolidated Financial Statements as it only changes the disclosures surrounding comprehensive income and as the Company already presents net income and comprehensive income in a single continuous statement.

In May 2011, the FASB issued ASU No. 2011-04 “Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.” ASU No. 2011-04 establishes a global standard for applying fair value measurement. In addition to a few updates to the measurement guidance, ASU No. 2011-04 includes enhanced disclosure requirements. The most significant change for companies reporting under U.S. GAAP is an expansion of the disclosures required for “Level 3” measurements; that is, measurements based on unobservable inputs, such as a company’s own data. This update is effective for the Company beginning in fiscal year 2012. The Company is currently assessing the impact of ASU No. 2011-04 on its Consolidated Financial Statements.

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**2. ACQUISITIONS**

***Micro Power Electronics, Inc.***

On December 15, 2011, Electrochem acquired all of the outstanding common and preferred stock of Micro Power Electronics, Inc. (“Micro Power”) headquartered in Beaverton, OR. Micro Power is a leading supplier of custom battery solutions, serving the portable medical, military and handheld automatic identification and data collection markets. Micro Power’s commercial portfolio is highly complementary to the products and services offered by Electrochem.

This transaction was accounted for under the acquisition method of accounting. Accordingly, the results of Micro Power’s operations were included in the consolidated financial statements from the date of acquisition. The aggregate purchase price consisted of the amount paid to Micro Power shareholders (\$57.5 million), payments to Micro Power’s creditors at closing (\$6.6 million) and certain Micro Power transaction-related expenses (\$7.6 million) that were paid or accrued at December 15, 2011. The Company’s transaction costs associated with this acquisition (\$0.6 million) were expensed as incurred through Other Operating Expenses, Net in the Consolidated Statement of Operations. The Company financed this acquisition with cash on hand and borrowed \$45 million under its revolving credit facility. As of December 30, 2011, the Company has accrued \$5.7 million of Micro Power transaction-related expenses, which were paid in the first quarter of 2012.

The cost of the acquisition was preliminarily allocated to the assets acquired and liabilities assumed from Micro Power based on their fair values as of the close of the acquisition, with the amount exceeding the fair value recorded as goodwill. As the values of certain assets and liabilities are preliminary in nature, they are subject to adjustment as additional information is obtained, including, but not limited to, the finalization of our intangible asset valuation, working capital adjustment as defined in the purchase agreement, pre-acquisition tax positions and branding analysis. The valuations will be finalized in 2012. When the valuations are finalized, any changes to the preliminary valuation of assets acquired or liabilities assumed may result in material adjustments to the fair value of the intangible assets acquired, as well as goodwill. The following table summarizes the preliminary allocation of the Micro Power purchase price to the assets acquired and liabilities assumed as of the acquisition date (in thousands):

<b>Assets acquired</b>	
Current assets	\$ 25,683
Property, plant and equipment	1,650
Amortizing intangible assets	29,276
Goodwill	31,478
Other assets	94
Total assets acquired	<u>88,181</u>
<b>Liabilities assumed</b>	
Current liabilities	13,649
Long-term liabilities	2,834
Total liabilities assumed	<u>16,483</u>
	<u>\$ 71,698</u>

**GREATBATCH, INC.**  
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The preliminary fair values of the assets acquired were determined using one of three valuation approaches: market, income and cost. The selection of a particular method for a given asset depended on the reliability of available data and the nature of the asset, among other considerations.

The market approach, estimates the value for a subject asset based on available market pricing for comparable assets. The income approach, estimates the value for a subject asset based on the present value of cash flows projected to be generated by the asset. The projected cash flows were discounted at a required rate of return that reflects the relative risk of the asset and the time value of money. The projected cash flows for each asset considered multiple factors from the perspective of a marketplace participant including revenue projections from existing customers, attrition trends, product life-cycle assumptions, marginal tax rates and expected profit margins giving consideration to historical and expected margins. The cost approach estimates the value for a subject asset based on the cost to replace the asset and reflects the estimated reproduction or replacement cost for the asset, less an allowance for loss in value due to depreciation or obsolescence, with specific consideration given to economic obsolescence if indicated. These fair value measurement approaches are based on significant unobservable inputs, including management estimates and assumptions.

Current assets and liabilities - The fair value of current assets (excluding inventory) and current liabilities was assumed to approximate their carrying value as of the acquisition date due to the short-term nature of these assets and liabilities.

The fair value of in-process and finished goods inventory acquired was estimated by applying a version of the market approach called the comparable sales method. This approach estimates the fair value of the assets by calculating the potential revenue generated from selling the inventory and subtracting from it the costs related to the completion and sale of that inventory and a reasonable profit allowance. Based upon this methodology, the Company recorded the inventory acquired at fair value resulting in an increase in inventory of \$0.7 million. During the fourth quarter of 2011, the Company expensed \$0.2 million of this step-up value through Cost of Sales as the acquired inventory to which that step-up value was related was sold during that period. Raw materials inventory was valued at replacement cost.

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

<u>Amortizing Intangible Assets</u>	<u>Fair Value Assigned</u>	<u>Weighted Average Amortization Period (Years)</u>	<u>Estimated Useful Life (Years)</u>	<u>Weighted Average Discount Rate</u>
Technology and patents	\$ 8,051	4	10	14%
Customer lists	19,569	5	14	12%
Noncompete agreement	915	4	8	14%
Trademarks and tradenames	741	3	7	13%
	<u>\$ 29,276</u>	4	13	13%

The weighted average amortization period is less than the estimated useful life, as the Company is using an accelerated amortization method, which approximates the distribution of cash flows used to fair value those intangible assets.

**GREATBATCH, INC.**  
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Technology and patents - Technology and patents consists of technical processes, patented and unpatented technology, manufacturing know-how and the understanding with respect to products or processes that have been developed by Micro Power and that will be leveraged in current and future products. The fair value of technology and patents acquired was determined utilizing the relief from royalty method, a form of the income approach, with royalty rates that ranged from 2% to 4%. The Company determined that the estimated useful life of the technology and patents is approximately 10 years. This life is based upon management's estimate of the product life cycle associated with technology and patents before they will be replaced by new technologies.

Customer lists - Customer lists represent the estimated fair value of both the contractual and non-contractual customer relationships Micro Power has as of the acquisition date. The primary customers of Micro Power include large OEM manufacturers such as Carefusion, Harris Communications, Philips Healthcare, Thales Communications, and Thoratec, some of which are also customers of Electrochem. These relationships were valued separately from goodwill at the amount which an independent third party would be willing to pay for these relationships. The fair value of customer lists was determined using the multi-period excess-earnings method, a form of the income approach. The Company determined that the estimated useful life of the existing customer lists is approximately 14 years. This life was based upon historical customer attrition as well as management's understanding of the industry and product life cycles.

Trademarks and tradenames - Trademarks and tradenames represent the estimated fair value of corporate and product names acquired from Micro Power, which will be utilized by the Company in the future. These tradenames were valued separately from goodwill at the amount which an independent third party would be willing to pay for use of these names. The fair value of the trademarks and tradenames was determined by utilizing the relief from royalty method, a form of the income approach, with a 0.5% royalty rate. The tradenames are inherently valuable as the Company believes they convey favorable perceptions about the products with which they are associated. This in turn generates consistent and increased demand for the products, which provides the Company with greater revenues, as well as greater production and operating efficiencies. Thus, the Company will realize larger profit margins than companies without the tradenames. The Company determined that the estimated useful life of the trademarks and tradenames is approximately 7 years.

Goodwill - The excess of the purchase price over the fair value of net tangible and intangible assets acquired of \$31.5 million was allocated to goodwill. Various factors contributed to the establishment of goodwill, including: the value of Micro Power's highly trained assembled work force and management team; the expected revenue growth over time that is attributable to increased market penetration from future products and customers; and the incremental value to the Company's Electrochem business from expanding and diversifying its revenues. The goodwill acquired in connection with the Micro Power acquisition was allocated to the Electrochem business segment and is not deductible for tax purposes.

**GREATBATCH, INC.**  
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**Pro Forma Results (Unaudited)** - The following unaudited pro forma information presents the consolidated results of operations of the Company and Micro Power as if that acquisition had occurred as of the beginning of the 2010 fiscal year presented (in thousands, except per share amounts):

	Year Ended	
	December 30, 2011	December 31, 2010
Sales	\$ 631,561	\$ 591,893
Net income	32,280	29,476
Earnings per share:		
Basic	\$ 1.39	\$ 1.28
Diluted	\$ 1.37	\$ 1.25

The unaudited pro forma information presents the combined operating results of Greatbatch and Micro Power, with the results prior to the acquisition date adjusted to include the pro forma impact of the amortization of acquired intangible assets based on the purchase price allocation, the elimination of non-recurring inventory step-up amortization recorded by Greatbatch (\$0.7 million), the adjustment to interest income/expense reflecting the cash paid in connection with the acquisition, including acquisition-related expenses, at Greatbatch's weighted average interest income/expense rate, and the impact of income taxes on the pro forma adjustments utilizing the applicable statutory tax rate. The unaudited pro forma consolidated basic and diluted earnings per share are based on the consolidated basic and diluted weighted average shares of Greatbatch. For 2011, the Micro Power acquisition added approximately \$2.5 million to revenue and was neutral to net income.

The unaudited pro forma results are presented for illustrative purposes only and do not reflect the realization of potential cost savings, and any related integration costs. Certain costs savings may result from the acquisition; however, there can be no assurance that these cost savings will be achieved. These pro forma results do not purport to be indicative of the results that would have been obtained, or to be a projection of results that may be obtained in the future.

**Subsequent Event** – On February 16, 2012, the Company purchased all of the outstanding common stock of NeuroNexus Technologies, Inc. (“NeuroNexus”) headquartered in Ann Arbor, MI. NeuroNexus is an active implantable medical device design firm specializing in developing and commercializing high-value neural interface technology, components and systems for neuroscience and clinical markets. NeuroNexus has an extensive intellectual property portfolio, core technologies and capabilities to support the development and manufacturing of innovative neural interface devices across a wide range of functions including neuromodulation, sensing, optical stimulation and targeted drug delivery applications. This transaction will be accounted for under the acquisition method of accounting. Accordingly, the results of NeuroNexus's operations will be included in the consolidated financial statements from the date of acquisition within the Greatbatch Medical segment. The aggregate purchase price, which includes the repayment of NeuroNexus debt at closing, was approximately \$12 million and was funded with cash on hand.

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**3. SUPPLEMENTAL CASH FLOW INFORMATION**

(in thousands)	Year Ended		
	December 30, 2011	December 31, 2010	January 1, 2010
Noncash investing and financing activities:			
Unrealized (loss) gain on cash flow hedges, net	\$ (271)	\$ 1,027	\$ (200)
Common stock contributed to 401(k) Plan	-	-	4,015
Property, plant and equipment purchases included in accounts payable	4,455	2,614	1,259
Unsettled purchase of treasury stock	-	-	632
Cash paid during the year for:			
Interest	6,148	8,498	9,234
Income taxes	5,259	3,826	4,473
Acquisition of noncash assets	87,766	350	-
Liabilities assumed	16,483	-	-

**4. INVENTORIES**

Inventories are comprised of the following (in thousands):

	At	
	December 30, 2011	December 31, 2010
Raw materials	\$ 49,773	\$ 45,974
Work-in-process	36,603	34,659
Finished goods	23,537	20,807
Total	\$ 109,913	\$ 101,440

**GREATBATCH, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**5. PROPERTY, PLANT AND EQUIPMENT**

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

	At	
	December 30, 2011	December 31, 2010
	Manufacturing machinery and equipment	\$ 149,136
Buildings and building improvements	75,229	71,160
Information technology hardware and software	33,881	32,700
Leasehold improvements	17,426	17,282
Furniture and fixtures	11,282	10,475
Land and land improvements	11,075	10,332
Construction work in process	13,302	11,639
Other	993	808
	312,324	289,504
Accumulated depreciation	(166,518)	(143,124)
Total	\$ 145,806	\$ 146,380

Depreciation expense for property, plant and equipment was as follows (in thousands):

	Year Ended		
	December 30, 2011	December 31, 2010	January 1, 2010
	Depreciation expense	\$ 25,672	\$ 26,104

Construction work in process at December 30, 2011 primarily relates to the construction of the Company's Orthopaedic manufacturing facility in Allen County, IN. See Note 12 for a description of the Company's significant capital investment projects.

**GREATBATCH, INC.**  
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**6. INTANGIBLE ASSETS**

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

	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Foreign Currency Translation</b>	<b>Net Carrying Amount</b>
<b>At December 30, 2011</b>				
Purchased technology and patents	\$ 97,324	\$ (54,054)	\$ 842	\$ 44,112
Customer lists	66,388	(14,009)	1,807	54,186
Other	5,174	(4,019)	805	1,960
Total amortizing intangible assets	<u>\$ 168,886</u>	<u>\$ (72,082)</u>	<u>\$ 3,454</u>	<u>\$ 100,258</u>
<b>At December 31, 2010</b>				
Purchased technology and patents	\$ 83,023	\$ (48,187)	\$ 1,212	\$ 36,048
Customer lists	46,818	(10,577)	2,119	38,360
Other	3,519	(2,862)	49	706
Total amortizing intangible assets	<u>\$ 133,360</u>	<u>\$ (61,626)</u>	<u>\$ 3,380</u>	<u>\$ 75,114</u>

Aggregate intangible asset amortization expense is comprised of the following (in thousands):

	<b>Year Ended</b>		
	<b>December 30, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Cost of sales	\$ 6,163	\$ 5,897	\$ 6,331
Selling, general and administrative expenses	3,926	3,765	3,729
Research, development and engineering costs	367	-	-
Total intangible asset amortization expense	<u>\$ 10,456</u>	<u>\$ 9,662</u>	<u>\$ 10,060</u>

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

	<b>Estimated Amortization Expense</b>
2012	\$ 14,225
2013	13,384
2014	13,533
2015	12,334
2016	10,123
Thereafter	36,659
Total estimated amortization expense	<u>\$ 100,258</u>

**GREATBATCH, INC.**  
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During 2011, the Company made various asset purchases of technology and patents totaling \$6.3 million, which is being amortized over a weighted average period of approximately 11 years. In connection with these purchases, the Company recorded a \$3.0 million contingent liability, which will only be paid if certain sales targets for products that utilize that technology are achieved. This contingent liability is currently classified in *Other Long-Term Liabilities*.

As a result of the successful rebranding of the Company, during the fourth quarter of 2009, the Company wrote-down its non-Greatbatch trademarks and tradenames by \$15.9 million. This charge was recorded based upon the Company's decision to discontinue use of the associated tradenames and determination that there were no market participants willing to purchase the previously acquired tradenames. In addition to the above, the Company incurred expense of \$0.7 million in 2009 related to its rebranding initiative, which includes additional advertising costs, and is included in SG&A. As of December 30, 2011 and December 31, 2010, the Company had a \$20.3 million indefinite-lived intangible asset recorded relating to its Greatbatch tradename.

The change in goodwill during 2011 is as follows (in thousands):

	<b>Greatbatch</b>		
	<b>Medical</b>	<b>Electrochem</b>	<b>Total</b>
At December 31, 2010	\$ 297,508	\$ 9,943	\$ 307,451
Goodwill acquired	-	31,478	31,478
Foreign currency translation	(276)	-	(276)
At December 30, 2011	<u>\$ 297,232</u>	<u>\$ 41,421</u>	<u>\$ 338,653</u>

As of December 30, 2011, no accumulated impairment loss has been recognized for the goodwill allocated to the Company's Greatbatch Medical or Electrochem segments.

**7. ACCRUED EXPENSES**

Accrued expenses are comprised of the following (in thousands):

	<b>As of</b>	
	<b>December 30, 2011</b>	<b>December 31, 2010</b>
Salaries and benefits	\$ 13,618	\$ 13,104
Profit sharing and bonuses	19,971	8,443
Warranty	2,013	2,313
Micro Power purchase price payable	5,690	-
Other	11,247	8,224
Total	<u>\$ 52,539</u>	<u>\$ 32,084</u>

**GREATBATCH, INC.**  
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**8. DEBT**

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

	At	
	December 30, 2011	December 31, 2010
Revolving line of credit	\$ 55,000	\$ 50,000
2.25% convertible subordinated notes, due 2013	197,782	197,782
Unamortized discount	(16,832)	(27,153)
Total long-term debt	\$ 235,950	\$ 220,629

**Revolving Line of Credit** – On June 24, 2011, the Company amended and extended its revolving credit facility (the “2011 Credit Facility”) to replace its then existing credit facility, which had an expiration date of May 22, 2012. The 2011 Credit Facility provides a \$400 million secured revolving credit facility, which can be increased to \$600 million upon the Company’s request and approval by a majority of the lenders. The 2011 Credit Facility also contains a \$15 million letter of credit subfacility and a \$15 million swingline subfacility. The 2011 Credit Facility has a maturity date of June 24, 2016; provided, however, if CSN (defined below) is not repaid in full, modified or refinanced before March 1, 2013, the maturity date of the 2011 Credit Facility will be March 1, 2013.

The 2011 Credit Facility is secured by the Company’s non-realty assets including cash, accounts receivable and inventories. Interest rates under the 2011 Credit Facility are, at the Company’s option either at: (i) the higher of (a) the prime rate and (b) the federal funds rate plus 0.5%, plus the applicable margin, which ranges between 0.0% and 1.0%, based on the Company’s total leverage ratio or (ii) the applicable LIBOR rate plus the applicable margin, which ranges between 1.5% and 3.0%, based on the Company’s total leverage ratio. Loans under the swingline subfacility will bear interest at the higher of (a) the prime rate and (b) the federal funds rate plus 0.5%, plus the applicable margin, which ranges between 0.0% and 1.0%, based on the Company’s total leverage ratio. The Company is also required to pay a commitment fee which, varies between 0.175% and 0.25% depending on the Company’s total leverage ratio.

The 2011 Credit Facility contains limitations on the incurrence of indebtedness, liens and licensing of intellectual property, investments and certain payments. The 2011 Credit Facility permits the Company to engage in the following activities up to an aggregate amount of \$250 million: 1) engage in permitted acquisitions in the aggregate not to exceed \$250 million; 2) make other investments in the aggregate not to exceed \$60 million; 3) make stock repurchases not to exceed \$60 million in the aggregate; and 4) retire up to \$198 million of Greatbatch, Inc.’s CSN. At any time that the total leverage ratio of the Company for the two most recently ended fiscal quarters is less than 2.75 to 1.0, the Company may make an election to reset each of the amounts specified in clauses (1) through (4) above. Additionally, these limitations can be waived upon the Company’s request and approval of a majority of the lenders. As of December 30, 2011, the Company had available to it the full amount of the above limits except for the permitted acquisitions limit which is \$178 million due to the Micro Power acquisition.

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The 2011 Credit Facility requires the Company to maintain a rolling four quarter ratio of adjusted EBITDA to interest expense of at least 3.0 to 1.0, and a total leverage ratio of not greater than 4.5 to 1.0 through December 30, 2011 and not greater than 4.0 to 1.0 from December 31, 2011 and thereafter. The calculation of adjusted EBITDA and total leverage ratio excludes non-cash charges, extraordinary, unusual, or non-recurring expenses or losses, non-cash stock-based compensation, and non-recurring expenses or charges incurred in connection with permitted acquisitions. As of December 30, 2011, the Company was in compliance with all covenants.

The 2011 Credit Facility contains customary events of default. Upon the occurrence and during the continuance of an event of default, a majority of the lenders may declare the outstanding advances and all other obligations under the 2011 Credit Facility immediately due and payable.

The weighted average interest rate on borrowings under the 2011 Credit Facility as of December 30, 2011, was 2.25%. As of December 30, 2011, the Company had \$345 million of borrowing capacity available under the 2011 Credit Facility. This amount may vary from period to period based upon the debt levels of the Company as well as the level of EBITDA, which impacts the covenant calculations as described above.

Interest Rate Swaps – In 2008, the Company entered into three receive floating-pay fixed interest rate swaps indexed to the six-month LIBOR rate, in order to hedge against potential changes in cash flows on the Company's outstanding debt, which was also indexed to the six-month LIBOR rate. As of December 30, 2011, none of these interest rate swaps remain outstanding. The receive variable leg of the interest rate swaps and the variable rate paid on the debt had the same rate of interest, excluding the credit spread, and reset and paid interest on the same dates. The Company accounted for these interest rate swaps as cash flow hedges. No portion of the change in fair value of the interest rate swaps during the 2011, 2010 or 2009 periods was considered ineffective. The amount recorded as Interest Expense related to the interest rate swaps was \$0.4 million, \$1.7 million, and \$1.4 million during 2011, 2010 and 2009, respectively.

***Convertible Subordinated Notes*** – In March 2007, the Company completed a private placement of \$197.8 million of 2.25% convertible subordinated notes, due June 15, 2013 ("CSN"). CSN bear interest at 2.25% per annum, payable semi-annually, are due on June 15, 2013, and were issued at a 5% discount. The holders may convert the notes into shares of the Company's common stock at a conversion price of \$34.70 per share, which is equivalent to a conversion ratio of 28.8219 shares per \$1,000 of principal. The conversion price and the conversion ratio will adjust automatically upon certain changes to the Company's capitalization. The fair value of CSN as of December 30, 2011 was approximately \$194 million and is based on recent sales prices.

The effective interest rate of CSN, which takes into consideration the amortization of the discount and deferred fees related to the issuance of these notes, is approximately 8.5%. The discount on CSN is being amortized to the maturity date of the convertible notes utilizing the effective interest method. As of December 30, 2011, the carrying amount of the discount related to the CSN conversion option was \$14.3 million. As of December 30, 2011, the if-converted value of the CSN notes does not exceed their principal amount as the Company's closing stock price of \$22.10 per share did not exceed the conversion price of \$34.70 per share, thus none of these shares were included in the weighted average share calculation of diluted earnings per share ("EPS").

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

	<b>Year Ended</b>		
	<b>December 30, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Contractual interest	\$ 4,450	\$ 4,450	\$ 4,450
Discount amortization	10,320	9,657	9,038

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

Conversions in connection with corporate transactions that constitute a fundamental change require the Company to pay a premium make-whole amount, based upon a predetermined table as set forth in the indenture agreement, whereby the conversion ratio on the notes may be increased by up to 7.0 shares per \$1,000 of principal. The premium make-whole amount will be paid in shares of common stock upon any such conversion, subject to the net share settlement feature of the notes described below.

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

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

**GREATBATCH, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

At January 1, 2010	\$ 3,028
Amortization during the period	<u>(1,023)</u>
At December 31, 2010	2,005
Financing costs deferred	2,213
Write-off during the period	(51)
Amortization during the period	<u>(1,018)</u>
At December 30, 2011	<u>\$ 3,149</u>

**9. EMPLOYEE BENEFIT PLANS**

**Savings Plan** – The Company sponsors a defined contribution 401(k) plan, which covers substantially all of its U.S. based employees. The plan provides for the deferral of employee compensation under Section 401(k) and a discretionary Company match. In 2011, 2010, and 2009, this match was \$0.35 per dollar of participant deferral, up to 6% of the total compensation for each participant. Net costs related to this defined contribution plan were \$1.6 million in 2011 and \$1.5 million in 2010, and 2009.

In addition to the above, under the terms of the 401(k) plan document there is an annual discretionary defined contribution of up 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 \$5.1 million in 2011. No discretionary contribution was made for fiscal years 2010, or 2009 as the Company did not achieve the applicable performance targets for those years. As of December 30, 2011, the 401(k) Plan held 543,320 shares of Company stock.

**Education Assistance Program** – The Company reimburses tuition, textbooks and laboratory fees for college or other job related programs for all of its U.S. based employees. The Company also reimburses college tuition for the dependent children of certain full-time U.S. based employees, which vests on a straight-line basis over ten years, up to the applicable local state university tuition rate. For certain employees and executives, the dependent children benefit is not limited. Minimum academic achievement is required in order to receive reimbursement under both programs. Aggregate expenses under the programs were \$1.5 million, \$1.3 million and \$1.5 million in 2011, 2010 and 2009, respectively. The dependent tuition reimbursement program was frozen on December 14, 2011 and is now limited to those U.S. employees who were employed by the Company as of that date.

**Defined Benefit Plans** – The Company is required to provide its employees located in Switzerland, Mexico, and France certain statutorily mandated defined benefits. Under these plans, benefits accrue to employees based upon years of service, position, age and compensation. The defined benefit pension plan provided to the Company's employees located in Switzerland is a funded contributory plan while the defined benefit plans provided to the Company's employees located in Mexico and France are unfunded and noncontributory. The Company expects 2012 contributions to these defined benefit plans to be similar to those made in 2011 and 2010.

**GREATBATCH, INC.**  
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Information relating to the funding position of the Company's defined benefit plans as of the plans measurement date of December 30, 2011 and December 31, 2010 were as follows (in thousands):

	<b>Year Ended</b>	
	<b>December 30, 2011</b>	<b>December 31, 2010</b>
<b>Change in projected benefit obligation:</b>		
Projected benefit obligation at beginning of year	\$ 15,961	\$ 14,294
Service cost	1,127	724
Interest cost	483	383
Prior service cost	125	143
Plan participants' contribution	999	863
Actuarial loss	393	257
Benefits paid	(1,396)	(590)
Settlements/curtailments	-	(1,524)
Plan amendment	(582)	-
Foreign currency translation	(57)	1,411
Projected benefit obligation at end of year	<u>17,053</u>	<u>15,961</u>
<b>Change in fair value of plan assets:</b>		
Fair value of plan assets at beginning of year	11,314	10,320
Employer contributions	1,041	913
Plan participants' contributions	999	863
Actual loss on plan assets	(443)	(278)
Benefits paid	(1,380)	(559)
Settlements	-	(1,050)
Foreign currency translation	(47)	1,105
Fair value of plan assets at end of year	<u>11,484</u>	<u>11,314</u>
Projected benefit obligation in excess of plan assets at end of year	<u>\$ 5,569</u>	<u>\$ 4,647</u>
Pension liability classified as other current liabilities	<u>\$ 21</u>	<u>\$ 6</u>
Pension liability classified as long-term liabilities	<u>\$ 5,548</u>	<u>\$ 4,641</u>
Accumulated benefit obligation at end of year	<u>\$ 14,962</u>	<u>\$ 14,218</u>

**GREATBATCH, INC.**  
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Amounts recognized in Accumulated Other Comprehensive Income are as follows (in thousands):

	<b>Year Ended</b>	
	<b>December 30, 2011</b>	<b>December 31, 2010</b>
Net loss occurring during the year	\$ 1,306	\$ 916
Amortization of losses	(59)	(586)
Prior service cost	(459)	143
Amortization of prior service cost	(137)	(4)
Foreign currency translation	(5)	90
Pre-tax adjustment	646	559
Taxes	(80)	42
Net loss	<u>\$ 566</u>	<u>\$ 601</u>

The amortization of amounts in Accumulated Other Comprehensive Income expected to be recognized as components of net periodic benefit expense during 2012 are as follows (in thousands):

Amortization of net prior service credit	\$ (41)
Amortization of net loss	165

Net pension cost is comprised of the following (in thousands):

	<b>Year Ended</b>	
	<b>December 30, 2011</b>	<b>December 31, 2010</b>
Service cost	\$ 1,127	\$ 724
Interest cost	483	383
Expected return on assets	(470)	(381)
Settlements	-	87
Recognized net actuarial loss	200	30
Net pension cost	<u>\$ 1,340</u>	<u>\$ 843</u>

The weighted-average rates used in the actuarial valuations were as follows:

	<b>Projected Benefit Obligation</b>		<b>Net Pension Cost</b>		
	<b>December 30, 2011</b>	<b>December 31, 2010</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Discount rate	2.5%	2.9%	2.9%	3.0%	3.0%
Salary growth	2.3%	2.5%	2.5%	2.5%	2.5%
Expected rate of return on assets	3.5%	3.8%	3.8%	4.0%	4.0%
Long-term inflation rate	1.3%	1.5%	1.5%	1.5%	1.5%

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The discount rate used is based on the yields of Switzerland AA bonds with a duration matching the duration of the liabilities plus approximately 50 basis points to reflect the risk of investing in corporate bonds. The expected rate of return on plan assets reflects long-term earnings expectations on existing plan assets and those contributions expected to be received during the current plan year. In estimating that rate, appropriate consideration was given to historical returns earned by plan assets in the fund and the rates of return expected to be available for reinvestment. Rates of return were adjusted to reflect current capital market assumptions and changes in investment allocations. Equity securities and fixed income securities were assumed to earn a return in the range of 6% to 8% and 2.25%, respectively. When these overall return expectations are applied to the pension plan's target allocation, the expected rate of return is determined to be 3.5%.

Plan assets were comprised of the following (in thousands):

	<b>December 30, 2011</b>	<b>Fair Value Measurements Using</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Cash	\$ 179	\$ 179	\$ -	\$ -
Equity securities:				
U.S. companies	1,019	1,019	-	-
International companies	2,155	2,155	-	-
Emerging markets	415	415	-	-
Fixed income:				
Government & government agencies	4,057	4,057	-	-
Corporate	1,860	1,860	-	-
Real-estate	1,064	-	1,064	-
Other	735	735	-	-
Total	<u>\$ 11,484</u>	<u>\$ 10,420</u>	<u>\$ 1,064</u>	<u>\$ -</u>

**GREATBATCH, INC.**  
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	<b>Fair Value Measurements Using</b>			
	<b>December 31, 2010</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Cash	\$ 84	\$ 84	\$ -	\$ -
Equity securities:				
U.S. companies	969	969	-	-
International companies	2,310	2,310	-	-
Emerging markets	464	464	-	-
Fixed income:				
Government & government agencies	4,336	4,336	-	-
Corporate	1,034	1,034	-	-
Real-estate	1,081	-	1,081	-
Other	1,036	1,036	-	-
<b>Total</b>	<b>\$ 11,314</b>	<b>\$ 10,233</b>	<b>\$ 1,081</b>	<b>\$ -</b>

The fair value of Level 1 plan assets are obtained by reference to the last quoted price of the identical security on the market which it trades. The fair value of Level 2 plan assets are obtained from quoted market prices in inactive markets or valuation models with observable market data inputs to estimate fair value. These observable market data inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data.

The weighted average target and actual pension fund asset allocation as of the valuation date was as follows:

Asset Category:	<b>2011</b>	
	<b>Target</b>	<b>Actual</b>
Fixed income	54.0%	52.0%
Equity	31.0%	31.0%
Real-estate	10.0%	9.0%
Cash	0.0%	2.0%
Other	5.0%	6.0%
	<u>100.0%</u>	<u>100.0%</u>

The target allocation is consistent with the Company's goal of diversifying plan assets in order to preserve capital while achieving investment results that will contribute to the proper funding of benefit obligations and cash flow requirements.

**GREATBATCH, INC.**  
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Estimated benefit payments over the next ten years are as follows (in thousands):

2012	\$	773
2013		992
2014		989
2015		1,039
2016		1,035
2017-2021		6,637

**10. STOCK-BASED COMPENSATION**

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

	Year Ended		
	December 30, 2011	December 31, 2010	January 1, 2010
Stock options	\$ 2,511	\$ 2,617	\$ 2,631
Restricted stock and units	4,526	4,267	2,573
401(k) stock contribution	5,045	-	-
Total stock-based compensation expense	\$ 12,082	\$ 6,884	\$ 5,204
Cost of sales	\$ 4,184	\$ 509	\$ 398
Selling, general and administrative	6,630	5,982	4,375
Research, development and engineering	1,268	393	431
Total stock-based compensation expense	\$ 12,082	\$ 6,884	\$ 5,204

During 2010 and 2009, the Company reversed approximately \$0.3 million and \$2.6 million, respectively, of performance stock-based compensation expense as it was no longer probable that the performance metrics would be achieved on those awards. During 2010, the Company recorded \$0.7 million of stock-based compensation expense related to the accelerated vesting of equity awards issued to the Company's former Senior Vice President - Orthopaedics, who died during the year.

***Summary of Plans***

The Company's 1998 Stock Option Plan, 2002 Restricted Stock Plan and Non-Employee Directors Plan have been frozen to any new award issuances. Stock option and restricted stock awards remain outstanding under these plans.

The Company's 2005 Stock Incentive Plan ("2005 Plan"), as amended, authorizes the issuance of up to 2,450,000 shares of equity incentive awards including nonqualified and incentive stock options, restricted stock, restricted stock units, stock bonuses and stock appreciation rights subject to the terms of the 2005 Plan. The 2005 Plan limits the amount of restricted stock, restricted stock units and stock bonuses that may be awarded in the aggregate to 850,000 shares of the 2,450,000 shares authorized by the 2005 Plan.

**GREATBATCH, INC.**  
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The Company's 2009 Stock Incentive Plan ("2009 Plan") authorizes the issuance of up to 1,350,000 shares of equity incentive awards including nonqualified and incentive stock options, restricted stock, restricted stock units, stock bonuses and stock appreciation rights subject to the terms of the 2009 Plan. The 2009 Plan limits the amount of restricted stock, restricted stock units and stock bonuses that may be awarded in the aggregate to 200,000 shares of the 1,350,000 shares authorized.

In 2011, stockholders of the Company approved the Greatbatch, Inc. 2011 Stock Incentive Plan (the "2011 Plan"). The 2011 Plan authorizes the issuance of up to 1,000,000 shares of equity incentive awards including nonqualified and incentive stock options, restricted stock, restricted stock units, stock bonuses and stock appreciation rights, subject to the terms of the 2011 Plan. The 2011 Plan does not limit the amount of restricted stock, restricted stock units or stock bonuses that may be awarded.

As of December 30, 2011, there were 894,936, 626,402 and 313,020 shares available for future grants under the 2011 Plan, 2009 Plan and 2005 Plan, respectively. Due to plan sub-limits, of the shares available for grant, only 731 shares and 18,426 shares may be awarded under the 2009 Plan and the 2005 Plan, respectively, in the form of restricted stock, restricted stock units or stock bonuses.

***Stock Options***

Stock options granted generally vest over a three or four year period, expire 10 years from the date of grant, and are granted at exercise prices equal to or greater than the fair value of the Company's common stock on the date of grant. Performance-based stock options only vest if certain performance metrics are achieved. The performance metrics generally cover a three-year performance period beginning in the year of grant and include the achievement of revenue, adjusted operating earnings and adjusted operating cash flow targets. In 2010, the Company began issuing all performance stock-based awards in the form of restricted stock units.

The Company utilizes the Black-Scholes option pricing model to determine the fair value of stock options. Management is required to make certain assumptions with respect to selected model inputs. 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 stock options, which represents the period of time that the stock options are expected to be outstanding, is based on historical data. The expected dividend yield is based on the Company's history and expectation of future dividend payouts. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for a period commensurate with the estimated expected life. If factors change and result in different assumptions, the stock option expense that the Company records for future grants may differ significantly from what the Company recorded in the current period. Stock-based compensation expense is only recorded for those awards that are expected to vest. Pre-vesting forfeiture estimates for determining appropriate stock-based compensation expense are estimated at the time of grant based on historical experience. Revisions are made to those estimates in subsequent periods if actual forfeitures differ from estimated forfeitures. For retirement eligible employees, whose awards immediately vest, a 0% forfeiture rate is used.

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

	<b>Year Ended</b>		
	<b>December 30, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Weighted average grant date fair value	\$ 9.37	\$ 8.24	\$ 8.63
Risk-free interest rate	2.02%	2.62%	2.03%
Expected volatility	40%	40%	39%
Expected life (in years)	5.3	5.4	5.6
Expected dividend yield	0%	0%	0%
Annual prevesting forfeiture rate	9%	9%	9%

The following table summarizes time-vested stock option activity:

	<b>Number of Time-Vested Stock Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (In Years)</b>	<b>Aggregate Intrinsic Value (In Millions)</b>
Outstanding at January 2, 2009	1,498,294	\$ 24.28		
Granted	243,920	26.53		
Exercised	(13,736)	15.45		
Forfeited or expired	(366,355)	27.27		
Outstanding at January 1, 2010	1,362,123	23.94		
Granted	243,155	20.57		
Exercised	(34,196)	19.26		
Forfeited or expired	(107,526)	24.43		
Outstanding at December 31, 2010	1,463,556	23.46		
Granted	306,449	23.98		
Exercised	(84,237)	21.41		
Forfeited or expired	(126,997)	26.47		
Outstanding at December 30, 2011	<u>1,558,771</u>	<u>\$ 23.42</u>	<u>6.1</u>	<u>\$ 1.5</u>
Expected to vest at December 30, 2011	<u>1,529,168</u>	<u>\$ 23.42</u>	<u>6.1</u>	<u>\$ 1.5</u>
Exercisable at December 30, 2011	<u>1,236,993</u>	<u>\$ 23.51</u>	<u>5.6</u>	<u>\$ 1.3</u>

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The following table summarizes performance-vested stock option activity:

	<b>Number of Performance- Vested Stock Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (In Years)</b>	<b>Aggregate Intrinsic Value (In Millions)</b>
Outstanding at January 2, 2009	798,564	\$ 23.62		
Granted	310,407	26.53		
Forfeited or expired	<u>(106,987)</u>	24.00		
Outstanding at January 1, 2010	1,001,984	24.48		
Forfeited or expired	<u>(257,461)</u>	26.81		
Outstanding at December 31, 2010	744,523	23.68		
Exercised	(26,478)	22.53		
Forfeited or expired	<u>(239,681)</u>	22.29		
Outstanding at December 30, 2011	<u>478,364</u>	<u>\$ 24.44</u>	<u>5.9</u>	<u>\$ -</u>
Expected to Vest at December 30, 2011	<u>308,299</u>	<u>\$ 23.29</u>	<u>5.3</u>	<u>\$ -</u>
Exercisable at December 30, 2011	<u>251,610</u>	<u>\$ 22.56</u>	<u>5.0</u>	<u>\$ -</u>

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 the Company's common shares as of December 30, 2011 (\$22.10) and the weighted average exercise price of the underlying stock options, multiplied by the number of options outstanding and/or exercisable. As of December 30, 2011, \$2.7 million of unrecognized compensation cost related to non-vested stock options is expected to be recognized over a weighted-average period of approximately 2 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.

Proceeds from the exercise of stock options are credited to common stock at par value and the excess is credited to additional paid-in capital. A portion of the options outstanding 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 stock 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 stock options result in the creation of a deferred tax asset, which is a temporary difference, until the time that the option is exercised.

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

	<b>Year Ended</b>		
	<b>December 30, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Intrinsic value	\$ 501	\$ 112	\$ 80
Cash received	2,401	659	212
Tax (expense) benefit realized	(146)	(41)	24

***Restricted Stock and Restricted Stock Units***

Time-vested restricted stock and restricted stock unit awards granted typically vest 50% on the second fiscal year-end from the date of the award and 25% on the third and fourth fiscal year-ends from the date of the award. The fair value of time-based as well as nonmarket-based performance restricted stock and restricted stock unit awards is equal to the fair value of the Company's stock on the date of grant. The following table summarizes time-vested restricted stock and unit activity:

	<b>Time-Vested Activity</b>	<b>Weighted Average Fair Value</b>
Nonvested at January 2, 2009	183,765	\$ 22.84
Granted	100,358	26.17
Vested	(104,412)	23.79
Forfeited	(18,713)	23.49
Nonvested at January 1, 2010	160,998	24.22
Granted	124,747	21.11
Vested	(147,434)	23.05
Forfeited	(14,925)	23.45
Nonvested at December 31, 2010	123,386	22.57
Granted	31,625	23.49
Vested	(80,825)	22.80
Forfeited	(4,244)	22.98
Nonvested at December 30, 2011	69,942	\$ 22.69

Performance-vested restricted stock granted prior to 2010 vests upon the achievement of certain annual diluted EPS targets by the Company, or the seventh anniversary date of the award.

The performance-based restricted stock units granted in 2010 and 2011 only vest if certain market-based performance metrics are achieved. The amount of shares that ultimately vest range from 0 shares to 513,243 shares based upon the total shareholder return of the Company relative to the Company's compensation peer group over a three year performance period beginning in the year of grant. The fair value of the restricted stock units was determined by utilizing a Monte Carlo simulation model, which projects the value of Greatbatch stock versus the peer group under

**GREATBATCH, INC.**  
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numerous scenarios and determines the value of the award based upon the present value of these projected outcomes. The following table summarizes performance-vested restricted stock and stock unit activity related to the Company's plans:

	<b>Performance- Vested Activity</b>	<b>Weighted Average Fair Value</b>
Nonvested at January 2, 2009	24,000	\$ 23.07
Nonvested at January 1, 2010	24,000	23.07
Granted	289,654	14.43
Vested	(21,558)	15.12
Forfeited	(8,299)	14.56
Nonvested at December 31, 2010	283,797	15.10
Granted	279,415	18.21
Vested	(6,600)	17.94
Forfeited	(26,869)	15.85
Nonvested at December 30, 2011	529,743	\$ 16.68

The realized tax benefit (expense) from the vesting of restricted stock and restricted stock units was \$0.008 million, \$0.01 million and (\$0.1 million) for 2011, 2010 and 2009, respectively. As of December 30, 2011, there was \$6.0 million of total unrecognized compensation cost related to the restricted stock and restricted stock unit awards. That cost is expected to be recognized over a weighted-average period of approximately 2 years. The fair value of shares vested in 2011, 2010 and 2009 was \$1.9 million, \$4.1 million and \$2.0 million, respectively.

**11. RESEARCH, DEVELOPMENT AND ENGINEERING COSTS, NET**

Research, Development and Engineering Costs, Net are comprised of the following (in thousands):

	<b>Year Ended</b>		
	<b>December 30, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Research and development costs	\$ 19,014	\$ 17,378	\$ 17,707
Engineering costs	35,472	34,208	26,438
Less: cost reimbursements	(8,973)	(6,567)	(10,583)
Engineering costs, net	26,499	27,641	15,855
Total research, development and engineering costs, net	\$ 45,513	\$ 45,019	\$ 33,562

**GREATBATCH, INC.**  
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**12. OTHER OPERATING EXPENSES, NET**

Other Operating Expenses, Net is comprised of the following (in thousands):

	Year Ended		
	December 30, 2011	December 31, 2010	January 1, 2010
Orthopaedic facility optimization <sup>(a)</sup>	\$ 425	\$ 225	\$ -
2007 & 2008 facility shutdowns and consolidations <sup>(b)</sup>	-	1,348	7,069
Integration costs <sup>(c)</sup>	-	42	3,077
Asset dispositions, severance and other <sup>(d)</sup>	168	2,943	948
	<u>\$ 593</u>	<u>\$ 4,558</u>	<u>\$ 11,094</u>

**(a) Orthopaedic facility optimization.** In 2010, the Company began updating its Indianapolis, IN facility to streamline operations, consolidate two buildings, increase capacity, further expand capabilities and reduce dependence on outside suppliers. This initiative was completed in 2011.

In 2011, the Company began construction on an 80,000 square foot manufacturing facility in Allen County, IN and will transfer the manufacturing operations currently being performed at its Columbia City, IN location into this new facility. This facility is expected to be completed by mid-2012.

In 2011, the Company also initiated a multi-faceted plan to further enhance, optimize and leverage the Company's Orthopaedics manufacturing infrastructure. This plan includes the opening of two Orthopaedic design centers, transferring production of certain Orthopaedic product lines to other lower cost manufacturing facilities and the consolidation of the Company's Orthopaedic operations in Switzerland into a new facility. These initiatives are expected to be completed over the next two to three years.

The total capital investment expected to be incurred for these initiatives is between \$50 million and \$60 million, of which \$13 million has been incurred. Total expense expected to be incurred for these initiatives is between \$10 million and \$15 million, of which \$1 million has been incurred. All expenses will be recorded within the Greatbatch Medical segment and are expected to include the following:

- Severance and retention - \$2 million - \$3 million;
- Production inefficiencies, moving and revalidation - \$2 million - \$3 million;
- Accelerated depreciation and asset write-offs - \$2 million - \$4 million;
- Personnel - \$3 million - \$4 million; and
- Other - \$1 million.

Ultimately these updates will further reduce lead times, improve quality and allow the Company to better meet the needs of its customers. All expenses are cash expenditures, except accelerated depreciation and asset write-offs.

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The change in accrued liabilities related to the Orthopaedic facility optimizations is as follows (in thousands):

	<b>Severance and Retention</b>	<b>Production Inefficiencies, Moving and Revalidation</b>	<b>Accelerated Depreciation/ Asset Write- offs</b>	<b>Other</b>	<b>Total</b>
At December 31, 2010	\$ -	\$ -	\$ -	\$ -	\$ -
Restructuring charges	-	397	18	10	425
Write-offs	-	-	(18)	-	(18)
Cash payments	-	(397)	-	(10)	(407)
At December 30, 2011	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**(b) 2007 & 2008 facility shutdowns and consolidations.** From 2007 to 2010, the Company completed the following facility shutdowns and consolidation initiatives:

- Consolidated its Electrochem manufacturing facilities in Canton, MA, Teterboro, NJ and Suzhou, China, into a newly constructed facility in Raynham, MA;
- Consolidated its corporate offices in Clarence, NY into its technology center also in Clarence, NY;
- Reorganized and consolidated various general and administrative and research and development functions throughout the organization in order to optimize those resources;
- Consolidated its Orchard Park, NY (Electrochem manufacturing), Exton, PA (Orthopaedic corporate office) and Saignelegier, Switzerland (Orthopaedic manufacturing) facilities into existing facilities that had excess capacity; and
- Consolidated its manufacturing operations in Blaine, MN into its Plymouth, MN facility.

The total expenses incurred for these facility shutdowns and consolidations was \$17.3 million and included the following:

- Severance and retention - \$4.4 million;
- Production inefficiencies, moving and revalidation - \$5.2 million;
- Accelerated depreciation and asset write-offs - \$5.3 million;
- Personnel - \$0.7 million; and
- Other - \$1.7 million.

All categories of costs are considered to be cash expenditures, except accelerated depreciation and asset write-offs. For 2010, costs relating to these initiatives of \$0.3 million and \$1.0 million were included in the Greatbatch Medical and Electrochem business segments, respectively. For 2009, costs relating to these initiatives of \$1.6 million and \$5.5 million were included in the Greatbatch Medical and Electrochem business segments, respectively.

As a result of these consolidation initiatives, two Greatbatch Medical facilities and one Electrochem facility were classified as assets held for sale. One Greatbatch Medical and one Electrochem facility were sold in 2010, which resulted in net cash proceeds of \$2.4 million. The remaining Greatbatch Medical facility, which had a fair value of \$1.9 million, was reclassified to Property, Plant and Equipment, Net in 2010 as management decided to utilize this facility for future operations. For 2010 and 2009 write-downs of \$1.0 million and \$0.3 million, respectively, were recorded relating to these facilities and were included in Other Operating Expenses, Net.

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*(c) Integration costs.* During 2010 and 2009, the Company incurred costs related to the integration of the companies acquired in 2007 and 2008. The integration initiatives include the implementation of the Oracle ERP system, training and compliance with Company policies, as well as the implementation of lean manufacturing and six sigma initiatives. These expenses were primarily for consultants, relocation and travel costs.

*(d) Asset dispositions, severance and other.* During 2011, 2010, and 2009, the Company recorded (gains) write-downs in connection with various asset disposals, net of insurance proceeds received, if any. Additionally, during 2011 the Company incurred \$0.6 million of acquisition related costs in connection with its purchase of Micro Power. During 2010, we realigned resources within Greatbatch Medical, which included the elimination of certain positions globally. Severance charges associated with this realignment were \$2.3 million. A significant portion of the annual savings as a result of this initiative was reinvested into research and development activities with higher growth opportunities, including further investment in the Company's systems and device projects. During 2009, the Company incurred approximately \$0.6 million in severance charges in connection with various workforce reductions.

**13. INCOME TAXES**

The U.S. and international components of income (loss) before provision (benefit) for income taxes were as follows (in thousands):

	<b>Year Ended</b>		
	<b>December 30, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
U.S.	\$ 43,610	\$ 46,217	\$ (15,285)
International	4,782	3,108	(2,892)
	<u>\$ 48,392</u>	<u>\$ 49,325</u>	<u>\$ (18,177)</u>

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

	<b>Year Ended</b>		
	<b>December 30, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Current:			
Federal	\$ 5,150	\$ (671)	\$ 827
State	(40)	179	(177)
International	1,384	1,260	294
	<u>6,494</u>	<u>768</u>	<u>944</u>
Deferred:			
Federal	8,028	15,409	(9,256)
State	599	300	(153)
International	149	(290)	(711)
	<u>8,776</u>	<u>15,419</u>	<u>(10,120)</u>
	<u>\$ 15,270</u>	<u>\$ 16,187</u>	<u>\$ (9,176)</u>

The provision (benefit) for income taxes differs from the U.S. statutory rate due to the following:

	<b>Year Ended</b>		
	<b>December 30, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Statutory rate	35.0%	35.0%	(35.0)%
Federal tax credits	(3.7)	(2.6)	(5.5)
Foreign rate differential	0.3	(0.8)	1.9
Uncertain tax positions	(1.3)	(1.3)	(7.8)
State taxes, net of federal benefit	0.3	(0.3)	(1.2)
Valuation allowance	0.1	1.7	(0.1)
Other	0.9	1.1	(2.8)
Effective tax rate	<u>31.6%</u>	<u>32.8%</u>	<u>(50.5)%</u>

In its budget submission to Congress in February 2012, the Obama administration proposed changes to the manner in which the U.S. would tax the international income of U.S. based companies. While it is uncertain how the U.S. Congress will address U.S. tax policy in the future, reform of U.S. taxation, including taxation of international income, continues to be a topic of discussion for Congress. A significant change to the U.S. tax system, including changes to the taxation of international income, could have a material effect on the Company's effective tax rate.

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

	At	
	December 30, 2011	December 31, 2010
Tax credits	\$ 7,362	\$ 5,896
Net operating loss carryforwards	11,106	4,617
Inventories	4,441	4,575
Accrued expenses	2,961	2,563
Stock-based compensation	6,378	5,358
Other	1,052	507
Gross deferred tax assets	33,300	23,516
Less valuation allowance	(7,775)	(6,482)
Net deferred tax assets	25,525	17,034
Property, plant and equipment	(2,572)	(713)
Intangible assets	(54,874)	(40,082)
Convertible subordinated notes	(33,849)	(31,218)
Gross deferred tax liabilities	(91,295)	(72,013)
Net deferred tax liability	\$ (65,770)	\$ (54,979)
Presented as follows:		
Current deferred tax asset	\$ 7,828	\$ 7,398
Current deferred tax liability	(845)	(514)
Noncurrent deferred tax asset	2,450	2,427
Noncurrent deferred tax liability	(75,203)	(64,290)
	\$ (65,770)	\$ (54,979)

As of December 30, 2011, the Company has the following carryforwards available:

Jurisdiction	Tax Attribute	Amount (in millions)	Begin to Expire
U.S.	Net Operating Loss	\$ 19.2 <sup>(1)</sup>	2025
Switzerland	Net Operating Loss	12.3 <sup>(1)</sup>	2012
State	Net Operating Loss	29.1 <sup>(1)</sup>	Various
U.S. and State	R&D Credit	1.9 <sup>(1)</sup>	Various
State	Investment Tax Credit	5.3	Various

(1) These tax attributes were acquired primarily as part of the Micro Power acquisition in 2011 and Precimed acquisition in 2008. The utilization of certain net operating losses and credits is subject to an annual limitation under Internal Revenue Code Section 382.

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Certain federal tax credits reported on filed income tax returns included uncertain tax positions taken in prior years. Due to the application of the accounting for uncertain tax positions, the actual tax attributes are larger than the tax credits for which a deferred tax asset is recognized for financial statement purposes.

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 a portion of the deferred tax assets as of December 30, 2011 and December 31, 2010 related to certain state investment tax credits and net operating losses will not be realized.

The Company files annual income tax returns in the U.S., various state and local jurisdictions, and in various foreign jurisdictions. A number of years may elapse before an uncertain tax position, for which the Company has unrecognized tax benefits, is examined and finally settled. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, the Company believes that its unrecognized tax benefits reflect the most probable outcome. The Company adjusts these unrecognized tax benefits, as well as the related interest, in light of changing facts and circumstances. The resolution of a matter could be recognized as an adjustment to the provision for income taxes and the effective tax rate in the period of resolution.

Below is a summary of changes to the unrecognized tax benefit (in thousands):

	<b>Year Ended</b>		
	<b>December 30, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Balance, beginning of year	\$ 2,756	\$ 3,418	\$ 5,686
Additions based upon tax positions related to the current year	300	300	396
Additions recorded as part of business combinations	260	-	-
Additions (reductions) related to prior period tax positions	-	222	(1,185)
Reductions relating to settlements with tax authorities	-	-	(700)
Reductions as a result of a lapse of applicable statute of limitations	(1,736)	(1,184)	(779)
Balance, end of year	<u>\$ 1,580</u>	<u>\$ 2,756</u>	<u>\$ 3,418</u>

The tax years that remain open and subject to tax audits varies depending on the tax jurisdiction. The consolidated Federal 2009 and 2010 tax returns are currently under audit. The 2008 Federal tax return remains open for examination. The Company is also under audit in France for 2009 and 2010.

**GREATBATCH, INC.**  
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It is reasonably possible that a reduction of approximately \$0.8 million of the balance of unrecognized tax benefits may occur within the next 12 months as a result of the lapse of the statute of limitations and potential audit settlements. As of December 30, 2011, approximately \$1.5 million of unrecognized tax benefits would favorably impact the effective tax rate (net of federal benefit on state issues), if recognized.

#### **14. COMMITMENTS AND CONTINGENCIES**

***Litigation*** – The Company is a party to various legal actions arising in the normal course of business. The majority of these claims are employment related matters with former employees of the Company. While the Company does not believe that the ultimate resolution of any individual pending action will have a material effect on its results of operations, financial position, or cash flows, litigation is subject to inherent uncertainties. If an unfavorable ruling(s) were to occur, there exists the possibility of a material impact in the period in which the ruling occurs.

Previously reported - in 2002, a former Electrochem customer, Input/Output, Inc., now known as ION Geophysical Corporation (“Input/Output”), commenced an action against the Company. After trial in September 2009, a jury found in favor of Input/Output on fraud, unfair trade practices and breach of contract claims and awarded damages in the amount of \$21.7 million. The final judgment in the matter included an award of prejudgment interest bringing the total judgment to approximately \$33 million. During 2009, the Company accrued \$34.5 million in connection with the Electrochem Litigation. The Company’s post-trial motion for a new trial was denied, and the Company appealed the judgment to the Louisiana Court of Appeal. In December 2010, the Company entered into a settlement agreement with Input/Output. Under terms of this agreement, Input/Output released the Company of any liability in connection with the jury verdict and in return for that release, the Company paid Input/Output \$25 million. In the fourth quarter of 2010, the Company recognized a gain for the remaining \$9.5 million of the previous accrual.

***License agreements*** – The Company is a party to various license agreements for technology that is utilized in certain of its products. The most significant of these agreements are the licenses for basic technology used in the production of wet tantalum capacitors, filtered feedthroughs and MRI compatible lead systems. Expenses related to license agreements were \$2.8 million, \$2.5 million and \$3.3 million, for 2011, 2010 and 2009, respectively, and are included in Cost of Sales.

***Product Warranties*** – 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.

**GREATBATCH, INC.**  
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The change in product warranty liability was comprised of the following (in thousands):

	<b>Year Ended</b>	
	<b>December 30, 2011</b>	<b>December 31, 2010</b>
Beginning balance	\$ 2,313	\$ 1,330
Warranty reserves acquired	210	-
Additions to warranty reserve	375	2,237
Warranty claims paid	(887)	(1,285)
Foreign currency effect	2	31
Ending balance	\$ 2,013	\$ 2,313

**Operating Leases** – The Company is a party to various operating lease agreements for buildings, equipment and software. The Company primarily leases buildings, which accounts 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.

Operating lease expense was as follows (in thousands):

	<b>Year Ended</b>		
	<b>December 30, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Operating lease expense	\$ 2,704	\$ 3,114	\$ 3,443

Minimum future estimated annual operating lease expense are as follows (in thousands):

2012	\$ 3,347
2013	2,832
2014	2,849
2015	2,466
2016	2,305
Thereafter	2,895
Total estimated operating lease expense	\$ 16,694

**Self-Insured Medical Plan** – Beginning in 2010, the Company began self-funding the medical insurance coverage provided to its U.S. based employees. The risk to the Company is being limited through the use of stop loss insurance, which has an annual deductible of \$0.2 million per covered participant. The maximum aggregate loss (the sum of all claims under the \$0.2 million deductible) is limited to \$14.2 million with a maximum benefit of \$1.0 million. As of December 30, 2011 and December 31, 2010, the Company had \$1.6 million and \$2.1 million accrued, related to the self-insurance of its medical plan, respectively. This accrual is recorded in Accrued Expenses in the Consolidated Balance Sheet, and is primarily based upon claim history. For 2012, the maximum aggregate loss limit was lowered to \$13.5 million.

**GREATBATCH, INC.**  
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**Purchase Commitments** – Contractual obligations for purchase of goods or services are defined as agreements that are enforceable and legally binding 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 capital and 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 30, 2011, the total contractual obligation related to such expenditures is approximately \$31.6 million and will primarily be financed by existing cash and cash equivalents, cash generated from operations, or the 2011 Credit Facility over the next twelve months. 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.

**Foreign Currency Contracts** – The Company has entered into forward contracts to purchase Mexican pesos in order to hedge the risk of peso-denominated payments associated with the operations at its Tijuana, Mexico facility.

Reduction in Cost of Sales related to the Company's forward contracts are as follows (in thousands):

	<b>Year Ended</b>		
	<b>December 30,</b>	<b>December 31,</b>	<b>January 1,</b>
	<b>2011</b>	<b>2010</b>	<b>2010</b>
Reduction in Cost of Sales	\$ 556	\$ 483	\$ 559
Ineffective portion of change in fair value	-	-	-

Information regarding the Company's outstanding foreign currency contracts as of December 30, 2011 is as follows (dollars in thousands):

<b>Instrument</b>	<b>Type of Hedge</b>	<b>Aggregate</b>			<b>Fair Value</b>	<b>Balance Sheet Location</b>
		<b>Notional Amount</b>	<b>Start Date</b>	<b>End Date</b>		
FX Contract	Cash flow	\$ 6,000	Jan-12	Dec-12	\$ (486)	Accrued Exp
FX Contract	Cash flow	\$ 4,200	Jan-12	Dec-12	(52)	Accrued Exp
					<b>\$ (538)</b>	

**Workers' Compensation Trust** – The Company was a member of a group self-insurance trust that provided workers' compensation benefits to employees of the Company in Western New York (the "Trust"). 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 those obligations. During 2011, the Company was notified by the Trust of its intentions to cease operations at the end of 2011 and was assessed \$0.6 million as an estimate of its pro-rata share of future costs related to the Trust. This amount was accrued and paid in 2011. Based on actual experience, the Company could receive a refund or be assessed additional contributions for workers' compensation claims. Beginning in 2012, the Company will utilize traditional insurance to provide workers' compensation benefits.

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**15. EARNINGS (LOSS) PER SHARE**

The following table illustrates the calculation of Basic and Diluted EPS (in thousands, except per share amounts):

	<b>Year Ended</b>		
	<b>December 30, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
<u>Numerator for basic EPS:</u>			
Net income (loss)	\$ 33,122	\$ 33,138	\$ (9,001)
Effect of dilutive securities:			
Interest expense and deferred financing fees on convertible notes, net of tax	-	241	-
Numerator for diluted EPS	<u>\$ 33,122</u>	<u>\$ 33,379</u>	<u>\$ (9,001)</u>
<u>Denominator for basic EPS:</u>			
Weighted average shares outstanding	23,258	23,070	22,926
Effect of dilutive securities:			
Convertible notes	-	347	-
Stock options, restricted stock and restricted stock units	378	385	-
Denominator for diluted EPS	<u>23,636</u>	<u>23,802</u>	<u>22,926</u>
Basic EPS	<u>\$ 1.42</u>	<u>\$ 1.44</u>	<u>\$ (0.39)</u>
Diluted EPS	<u>\$ 1.40</u>	<u>\$ 1.40</u>	<u>\$ (0.39)</u>

The diluted weighted average share calculations do not include the following securities, which are not dilutive to the EPS calculations or the performance criteria have not been met:

	<b>Year Ended</b>		
	<b>December 30, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Time-vested stock options, restricted stock and restricted stock units	909,000	1,061,000	1,523,000
Performance-vested stock options and restricted stock units	649,000	609,000	1,026,000
Convertible notes	-	-	756,000

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**16. ACCUMULATED OTHER COMPREHENSIVE INCOME**

Accumulated Other Comprehensive Income is comprised of the following (in thousands):

	<b>Defined Benefit Plan Liability</b>	<b>Cash Flow Hedges</b>	<b>Foreign Currency Translation Adjustment</b>	<b>Total Pre-Tax Amount</b>	<b>Tax</b>	<b>Net-of- Tax Amount</b>
At December 31, 2010	\$ (2,014)	\$ (121)	\$ 12,230	\$ 10,095	\$ 375	\$ 10,470
Unrealized loss on cash flow hedges	-	(303)	-	(303)	106	(197)
Realized gain on cash flow hedges	-	(114)	-	(114)	40	(74)
Net defined benefit plan liability adjustments	(646)	-	-	(646)	80	(566)
Foreign currency translation gain	-	-	(704)	(704)	-	(704)
At December 30, 2011	<u>\$ (2,660)</u>	<u>\$ (538)</u>	<u>\$ 11,526</u>	<u>\$ 8,328</u>	<u>\$ 601</u>	<u>\$ 8,929</u>

**17. FAIR VALUE MEASUREMENTS**

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

Fair value measurement standards apply to certain financial assets and liabilities that are measured at fair value on a recurring basis (each reporting period). For the Company, these financial assets and liabilities include its derivative instruments. The Company does not have any nonfinancial assets or liabilities that are measured at fair value on a recurring basis. A summary of the valuation methodologies for assets and liabilities measured on a recurring basis is as follows:

Foreign currency contracts - The fair value of foreign currency contracts outstanding at December 30, 2011 and December 31, 2010 were determined through the use of cash flow models that utilize observable market data inputs to estimate fair value. These observable market data inputs include spot and forward foreign currency exchange rates, interest rates and credit spread curves. In addition to the above, the Company received fair value estimates from the foreign currency contract counterparty to verify the reasonableness of the Company's estimates. These fair value calculations are categorized in Level 2 of the fair value hierarchy.

Interest rate swap - The fair value of the Company's interest rate swap outstanding at December 31, 2010 was determined through the use of a cash flow model that utilizes observable market data inputs. These observable market data inputs include LIBOR, swap rates, and credit spread curves. In addition to the above, the Company received a fair value estimate from the interest rate swap counterparty to verify the reasonableness of the Company's estimate. This fair value calculation was categorized in Level 2 of the fair value hierarchy.

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The following tables provide information regarding assets and liabilities recorded at fair value on a recurring basis (in thousands):

<u>Description</u>	<u>Fair Value Measurements Using</u>			
	<u>At December 30, 2011</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Liabilities</b>				
Foreign currency contracts (Note 14)	\$ 538	\$ -	\$ 538	\$ -

<u>Description</u>	<u>Fair Value Measurements Using</u>			
	<u>At December 31, 2010</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Assets</b>				
Foreign currency contracts	\$ 315	\$ -	\$ 315	\$ -
<b>Liabilities</b>				
Interest rate swap	\$ 436	\$ -	\$ 436	\$ -

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

Fair value standards also apply to certain nonfinancial assets and liabilities that are measured at fair value on a nonrecurring basis. For example, certain long-lived assets such as goodwill, intangible assets, cost method investments and property, plant and equipment are measured at fair value when an impairment is recognized and the related assets are written down to fair value. A summary of the valuation methodologies for assets and liabilities measured on a nonrecurring basis is as follows:

**Cost method investment** - The Company holds investments in equity securities that are accounted for as cost method investments, which are classified as Other Long-Term Assets, and are measured at fair value only if certain events or circumstances occur that have a significant effect on the fair value of the investment. The aggregate recorded amount of cost method investments at December 30, 2011 and December 31, 2010 was \$5.7 million and \$11.8 million, respectively. During 2011 and 2010, the Company recognized impairment charges related to its cost method investments of \$0.3 million and \$0.2 million, respectively. The fair value of these investments was determined by reference to recent sales data of similar shares to independent parties in an inactive market. This fair value calculation was categorized in Level 2 of the fair value hierarchy.

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On January 5, 2011, the Company sold its cost method investment in IntElect Medical, Inc. (“IntElect”) in conjunction with Boston Scientific’s acquisition of IntElect. This transaction resulted in a pre-tax gain of \$4.5 million.

Property, plant and equipment, net - During 2010, one Greatbatch Medical facility, which was previously classified as an asset held for sale, was reclassified to Property, Plant and Equipment, Net as management decided to utilize this facility for future operations. This building was recorded at fair value at the date of reclassification and is now being amortized on a straight-line basis over its remaining estimated useful life. The fair value was determined by reference to recent sales data for comparable facilities. This fair value calculation was categorized in Level 2 of the fair value hierarchy.

The following table provides information regarding assets and liabilities recorded at fair value on a nonrecurring basis. There were no such assets or liabilities as of December 30, 2011 (in thousands):

<u>Description</u>	<u>Fair Value Measurements Using</u>			
	<u>At December 31, 2010</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Assets</b>				
Property, plant and equipment, net (Note 12)	\$ 1,908	-	\$ 1,908	-
Cost method investment	317	-	317	-

**Fair Value of Other Financial Instruments**

Convertible subordinated notes - The fair value of the Company’s convertible subordinated notes disclosed in Note 8 “Debt” was determined based upon recent third-party transactions for the Company’s notes in an inactive market. The Company’s convertible subordinated notes are valued for disclosure purposes utilizing Level 2 measurements of the fair value hierarchy.

Pension plan assets – The fair value of the Company’s pension plan assets disclosed in Note 9 “Employee Benefit Plans” are determined based upon quoted market prices in active markets, quoted market prices in inactive markets or multidimensional relational models with observable market data inputs to estimate fair value. These observable market data inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data. The Company’s pension plan assets are categorized in Level 1 or Level 2 of the fair value hierarchy.

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**18. STOCKHOLDER RIGHTS PLAN**

On March 1, 2002, the Company's Board of Directors adopted a stockholder rights plan and declared a dividend distribution of one preferred stock purchase right for each outstanding share of common stock. The dividend was paid to stockholders as of April 30, 2002. Each right, once exercisable, entitles the registered holder to purchase from the Company one one-hundredth of a share of preferred stock of the Company.

Under the rights plan, the rights initially trade together with the common stock and are not exercisable. In the absence of further action by the Board of Directors, the rights will become exercisable if a person or group acquires 15 percent or more of the outstanding shares of common stock or a person or group announces its intent to commence a tender or exchange offer without the prior approval of the Board of Directors.

The rights plan includes an exchange option. In general, after the rights become exercisable, the Board of Directors may, at its option, affect an exchange of part or all of the rights at a ratio of one share of Common Stock for each right, subject to adjustment in certain circumstances. The rights are also redeemable at any time prior to the time they become exercisable for \$0.001 per right, subject to adjustment in certain circumstances.

Unless earlier amended, redeemed or exchanged, the rights will expire on March 18, 2012. The issuance of the rights was not a taxable event, does not affect our reported financial condition or results of operations, including our EPS, and does not change the manner in which our common stock is traded.

**19. BUSINESS SEGMENT, GEOGRAPHIC AND CONCENTRATION RISK INFORMATION**

The Company operates its business in two reportable segments – Greatbatch Medical and Electrochem Solutions (“Electrochem”). The Greatbatch Medical segment designs and manufactures medical devices and components primarily for the CRM, Neuromodulation, Vascular Access and Orthopaedic markets. Additionally, Greatbatch Medical offers value-added assembly and design engineering services for products that incorporate Greatbatch Medical components. As a result of the strategy put in place over three years ago, Greatbatch Medical now offers its customers complete medical devices including design, development, manufacturing, regulatory submission and supporting worldwide distribution. This medical device strategy is being facilitated through the Company's QiG Group and leverages the component technology of Greatbatch Medical and Electrochem in the Company's core markets: Cardiovascular, Neuromodulation and Orthopaedic. Once the QiG Group designs and develops a medical device, it is manufactured by Greatbatch Medical. The operating expenses (RD&E, SG&A) of the QiG Group are included within the Greatbatch Medical segment.

Electrochem designs, manufactures and distributes primary and rechargeable batteries, battery packs and wireless sensors for demanding applications in markets such as energy, security, portable medical, environmental monitoring and more.

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The Company defines segment income from operations as sales less cost of sales including amortization and expenses attributable to segment-specific SG&A, RD&E expenses, and other operating expenses. Segment income also includes a portion of non-segment specific SG&A expenses based on allocations appropriate to the expense categories. The remaining unallocated operating and other expenses are primarily administrative corporate headquarters expenses and capital costs that are not allocated to reportable segments. Transactions between the two segments are not significant.

Significant charges (gains) included in the Company's business segment results are as follows (in thousands):

	<b>Year Ended</b>		
	<b>December 30, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Greatbatch Medical			
Intangible asset write-down	\$ -	\$ -	\$ 15,921
Electrochem			
Electrochem Litigation charge (gain)	-	(9,500)	34,500

An analysis and reconciliation of the Company's business segment, product line and geographic information to the respective information in the Consolidated Financial Statements follows. Sales by geographic area are presented by allocating sales from external customers based on where the products are shipped to (in thousands):

	<b>Year Ended</b>		
	<b>December 30, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Sales:			
Greatbatch Medical			
CRM/Neuromodulation	\$ 303,690	\$ 303,521	\$ 305,354
Vascular Access	45,098	38,000	35,816
Orthopaedic	140,277	118,748	113,897
Total Greatbatch Medical	489,065	460,269	455,067
Electrochem	79,757	73,156	66,754
Total sales	<u>\$ 568,822</u>	<u>\$ 533,425</u>	<u>\$ 521,821</u>

**GREATBATCH, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

	Year Ended		
	December 30, 2011	December 31, 2010	January 1, 2010
Segment income (loss) from operations:			
Greatbatch Medical	\$ 62,461	\$ 62,477	\$ 46,270
Electrochem	14,965	22,195	(32,734)
Total segment income from operations	77,426	84,672	13,536
Unallocated operating expenses	(15,727)	(15,678)	(12,488)
Operating income as reported	61,699	68,994	1,048
Unallocated other expense	(13,307)	(19,669)	(19,225)
Income (loss) before provision (benefit) for income taxes as reported	<u>\$ 48,392</u>	<u>\$ 49,325</u>	<u>\$ (18,177)</u>

	Year Ended		
	December 30, 2011	December 31, 2010	January 1, 2010
Depreciation and Amortization:			
Greatbatch Medical	\$ 28,571	\$ 28,117	\$ 29,869
Electrochem	2,965	2,660	2,860
Total depreciation and amortization included in segment income from operations	31,536	30,777	32,729
Unallocated depreciation and amortization	16,159	15,670	14,500
Total depreciation and amortization	<u>\$ 47,695</u>	<u>\$ 46,447</u>	<u>\$ 47,229</u>

	Year Ended		
	December 30, 2011	December 31, 2010	January 1, 2010
Expenditures for tangible long-lived assets, excluding acquisitions:			
Greatbatch Medical	\$ 22,509	\$ 15,088	\$ 11,261
Electrochem	1,072	763	910
Total reportable segments	23,581	15,851	12,171
Unallocated long-lived tangible assets	741	1,120	7,040
Total expenditures	<u>\$ 24,322</u>	<u>\$ 16,971</u>	<u>\$ 19,211</u>

**GREATBATCH, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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	At	
	December 30, 2011	December 31, 2010
Identifiable assets, net:		
Greatbatch Medical	\$ 653,628	\$ 641,591
Electrochem	161,904	71,480
Total reportable segments	815,532	713,071
Unallocated assets	65,815	63,905
Total assets	<u>\$ 881,347</u>	<u>\$ 776,976</u>

	Year Ended		
	December 30, 2011	December 31, 2010	January 1, 2010
Sales by geographic area:			
United States	\$ 256,987	\$ 243,827	\$ 245,974
Non-Domestic locations:			
Puerto Rico	94,059	88,369	76,823
Belgium	62,978	58,014	29,431
United Kingdom & Ireland	54,029	56,903	66,255
France	5,700	6,318	37,373
Rest of world	95,069	79,994	65,965
Total sales	<u>\$ 568,822</u>	<u>\$ 533,425</u>	<u>\$ 521,821</u>

	At	
	December 30, 2011	December 31, 2010
Long-lived tangible assets:		
United States	\$ 113,693	\$ 126,519
Rest of world	32,113	36,095
Total	<u>\$ 145,806</u>	<u>\$ 162,614</u>

**GREATBATCH, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

A significant portion of the Company's sales and accounts receivable were to four customers as follows:

	Sales			Accounts Receivable	
	Year Ended			At	
	December 30, 2011	December 31, 2010	January 1, 2010	December 30, 2011	December 31, 2010
Customer A	19%	21%	22%	7%	15%
Customer B	19%	19%	17%	23%	13%
Customer C	13%	12%	12%	6%	8%
Customer D	8%	10%	12%	6%	14%
	59%	62%	63%	42%	50%

**20. QUARTERLY SALES AND EARNINGS DATA - UNAUDITED**

	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
	(in thousands, except per share data)			
<b><u>2011</u></b>				
Sales	\$ 141,746	\$ 131,718	\$ 146,524	\$ 148,834
Gross profit	44,672	41,907	46,604	47,170
Net income <sup>(1)</sup>	5,639	6,989	8,550	11,944
EPS - basic	0.24	0.30	0.37	0.51
EPS - diluted	0.24	0.30	0.36	0.51
<b><u>2010</u></b>				
Sales	\$ 133,111	\$ 127,490	\$ 140,795	\$ 132,029
Gross profit	44,464	41,994	45,459	41,664
Net income <sup>(2)</sup>	13,839	5,964	7,788	5,547
EPS - basic	0.60	0.26	0.34	0.24
EPS - diluted	0.59	0.25	0.33	0.24

<sup>(1)</sup> Net income in the 2011 first quarter includes the impact of the gain on sale of a cost method investment. See Note 17 "Fair Value Measurements."

<sup>(2)</sup> Net income in the 2010 fourth quarter includes the impact of the Electrochem Litigation gain. See Note 14 "Commitments and Contingencies."

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

None.

## ITEM 9A. CONTROLS AND PROCEDURES

Management's Report on Internal Control Over Financial Reporting is incorporated by reference into this Item 9A from the report appearing at 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 as of December 30, 2011. 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 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 30, 2011, 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.

We acquired the following subsidiary during 2011:

- Micro Power Electronics, Inc.

We believe that the internal controls and procedures of the above mentioned subsidiary are reasonably likely to materially affect our internal control over financial reporting. We are currently in the process of incorporating the internal controls and procedures of this subsidiary into our internal controls over financial reporting.

The Company has begun to extend its Section 404 compliance program under the Sarbanes-Oxley Act of 2002 (the "Act") and the applicable rules and regulations under such Act to include this subsidiary. However, the Company has excluded the subsidiary listed above from Management's assessment of the effectiveness of internal control over financial reporting as of December 30, 2011, as permitted by the guidance issued by the Office of the Chief Accountant of the Securities and Exchange Commission. This subsidiary represented approximately 15% and 10% of net and total assets, respectively, and 0.4% of revenues of the consolidated financial statement amounts as of and for the year ended December 30, 2011. The Company will report on its assessment of the internal controls of its combined operations within the time period provided by the Act and the applicable Securities and Exchange Commission rules and regulations concerning business combinations.

Other than as described above, there were no other changes in the registrant's internal control over financial reporting 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, internal control over financial reporting, other than the above mentioned acquisition.

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information on the Registrant's directors is incorporated by reference to the caption "Election of Directors" contained in the Company's definitive Proxy Statement for its 2012 Annual Meeting of Stockholders.

Information on the Company's executive officers is presented under the caption "Executive Officers of the Company" contained in Part I of this Annual Report on Form 10-K.

The other information required by Item 10 is incorporated by reference to the Company's definitive Proxy Statement for its 2012 Annual Meeting of Stockholders.

**ITEM 11. EXECUTIVE COMPENSATION**

Information regarding executive compensation in the Proxy Statement for the 2012 Annual Meeting of Stockholders is incorporated herein by reference.

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

Information regarding security ownership of certain beneficial owners and management and related stockholder matters in the Proxy Statement for the 2012 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 2012 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 2012 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 and financial statement schedules filed as part of this Annual Report on Form 10-K. See Part II, Item 8. "Financial Statements and Supplementary Data."
- (2) The following financial statement schedule is included in this report on Form 10-K (in thousands):

**Schedule II - Valuation and Qualifying Accounts**

Col. A Description	Col. B Balance at Beginning of Period	Col. C - Additions		Col. D Deductions - Describe	Col. E Balance at End of Period
		Charged to Costs & Expenses	Charged to Other Accounts - Describe		
<b>December 30, 2011</b>					
Allowance for doubtful accounts	\$ 1,830	\$ 288	\$ 170 <sup>(3)(4)</sup>	\$ (358) <sup>(2)</sup>	\$ 1,930
Valuation allowance for deferred income tax assets	\$ 6,482	\$ 702 <sup>(1)</sup>	\$ 591 <sup>(3)(4)</sup>	\$ -	\$ 7,775
<b>December 31, 2010</b>					
Allowance for doubtful accounts	\$ 2,452	\$ (64)	\$ 35 <sup>(4)</sup>	\$ (593) <sup>(2)</sup>	\$ 1,830
Valuation allowance for deferred income tax assets	\$ 5,656	\$ 761 <sup>(1)</sup>	\$ 65 <sup>(4)</sup>	\$ -	\$ 6,482
<b>January 1, 2010</b>					
Allowance for doubtful accounts	\$ 1,603	\$ 961	\$ -	\$ (112) <sup>(2)</sup>	\$ 2,452
Valuation allowance for deferred income tax assets	\$ 4,485	\$ 1,171 <sup>(1)</sup>	\$ -	\$ -	\$ 5,656

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

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

(3) Balances recorded as a part of our 2011 acquisition of Micro Power Electronics, Inc.

(4) Includes foreign currency translation effect.

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

- (3) Exhibits required by Item 601 of Regulation S-K. The exhibits listed on the Exhibit Index of this Annual Report on Form 10-K have been previously filed, are filed herewith or are incorporated herein by reference to other filings.

## 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 28, 2012

By /s/ Thomas J. Hook  
Thomas J. Hook (Principal Executive Officer)  
President & Chief Executive Officer

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Thomas J. Hook</u> Thomas J. Hook	President & Chief Executive Officer & Director	February 28, 2012
<u>/s/ Thomas J. Mazza</u> Thomas J. Mazza	Senior Vice President & Chief Financial Officer (Principal Financial Officer)	February 28, 2012
<u>/s/ Marco F. Benedetti</u> Marco F. Benedetti	Corporate Controller (Principal Accounting Officer)	February 28, 2012
<u>/s/ Bill R. Sanford</u> Bill R. Sanford	Chairman	February 28, 2012
<u>/s/ Pamela G. Bailey</u> Pamela G. Bailey	Director	February 28, 2012
<u>/s/ Anthony P. Bihl III</u> Anthony P. Bihl III	Director	February 28, 2012
<u>/s/ Michael Dinkins</u> Michael Dinkins	Director	February 28, 2012
<u>/s/ Kevin C. Melia</u> Kevin C. Melia	Director	February 28, 2012
<u>/s/ Dr. Joseph A. Miller, Jr.</u> Dr. Joseph A. Miller, Jr.	Director	February 28, 2012
<u>/s/ Peter H. Soderberg</u> Peter H. Soderberg	Director	February 28, 2012
<u>/s/ William B. Summers, Jr.</u> William B. Summers, Jr.	Director	February 28, 2012
<u>/s/ Dr. Helena S. Wisniewski</u> Dr. Helena S. Wisniewski	Director	February 28, 2012

## **EXHIBIT INDEX**

<b><u>EXHIBIT NUMBER</u></b>	<b><u>DESCRIPTION</u></b>
3.1	Amended and Restated Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to our quarterly report on Form 10-Q for the period ended June 27, 2008).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to our annual report on Form 10-K for the period ended January 1, 2010).
4.1	Indenture for 2¼% Convertible Subordinated Debentures Due 2013 dated as of March 28, 2007 (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed on March 29, 2007).
4.2	First Supplemental Indenture dated April 2, 2007 (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed on April 4, 2007).
4.3	Registration Rights Agreement dated as of March 28, 2007 by and among us and the initial purchasers of the Debentures described above (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on March 29, 2007).
10.1#	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)).
10.2#	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).
10.3#	Greatbatch, Inc. Executive Short Term Incentive Compensation Plan (incorporated by reference to Exhibit B to our Definitive Proxy Statement on Schedule 14-A filed on April 20, 2007).
10.4#	2002 Restricted Stock Plan (incorporated by reference to Appendix B to our Definitive Proxy Statement on Schedule 14-A filed on April 9, 2003).
10.5	License Agreement dated August 8, 1996, between 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)).
10.6+	Amendment No. 2 dated December 6, 2002, between 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).
10.7#	Form of Change of Control Agreement between Greatbatch, Inc. and our executive officers (Thomas J. Hook, Thomas J. Mazza, Mauricio Arellano, Susan M. Bratton, Michelle Graham and Timothy G. McEvoy) (incorporated by reference to Exhibit 10.1 to our quarterly report on Form 10-Q for the period ended July 1, 2011).

- 10.8 Credit agreement date June 24, 2011 by and among Greatbatch Ltd., the lenders party thereto and Manufacturers and Traders Trust Company, as administrative agent, Bank of America, N.A., as syndication agent, and PNC Bank, N.A. and RBS Citizens, NA, as co-documentation agents (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on March 29, 2007).
- 10.9# Employment Agreement dated April 10, 2010 between Greatbatch, Inc. and Thomas J. Hook (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on April 13, 2010).
- 10.10# 2005 Stock Incentive Plan (incorporated by reference to Exhibit B to our Definitive Proxy Statement on Schedule 14-A filed on April 20, 2007).
- 10.11# 2009 Stock Incentive Plan (incorporated by reference to Exhibit A to our Definitive Proxy Statement on Schedule 14-A filed on April 13, 2009).
- 10.12#\* 2011 Stock Incentive Plan (as amended December 7, 2011).
- 10.13# Form of Restricted Stock Award Letter (incorporated by reference to Exhibit 10.22 to our Annual Report on Form 10-K for the year ended December 30, 2005).
- 10.14# Form of Incentive Stock Option Award Letter (incorporated by reference to Exhibit 10.23 to our Annual Report on Form 10-K for the year ended December 30, 2005).
- 10.15# Form of Nonqualified Option Award Letter (incorporated by reference to Exhibit 10.24 to our Annual Report on Form 10-K for the year ended December 30, 2005).
- 10.16# Form of Stock Option Award Letter (incorporated by reference to Exhibit 10.25 to our Annual Report on Form 10-K for the year ended December 30, 2005).
- 10.17+ 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\* Subsidiaries of Greatbatch, Inc.
- 23.1\* Consent of Independent Registered Public Accounting Firm
- 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.

101.INS XBRL Instance Document\*\*\*  
101.SCH XBRL Taxonomy Extension Schema Document\*\*\*  
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document\*\*\*  
101.LAB XBRL Taxonomy Extension Labels Linkbase Document\*\*\*  
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document\*\*\*  
101.DEF XBRL Taxonomy Extension Definition Linkbase Document\*\*\*

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.

\*\* - Furnished herewith.

\*\*\* - Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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

## RATIO OF EARNINGS TO FIXED CHARGES (Unaudited)

	Year Ended				
	Dec. 30, 2011	Dec. 31, 2010	Jan. 1, 2010	Jan. 2, 2009	Dec. 28, 2007
Earnings:					
Income (loss) before income taxes	\$ 48,392	\$ 49,325	\$ (18,177)	\$ 20,517	\$ 23,919
Pretax credits	-	-	-	(162)	(21)
Fixed Charges:					
Interest expense	\$ 5,526	\$ 7,839	\$ 9,930	\$ 10,435	\$ 5,427
Capitalized interest	-	-	-	171	22
Discounts & deferred financing fees	11,402	10,680	10,106	9,583	6,967
Interest portion of rental expense	766	848	1,053	850	574
Total earnings and fixed charges	<u>\$ 66,086</u>	<u>\$ 68,692</u>	<u>\$ 2,912</u>	<u>\$ 41,394</u>	<u>\$ 36,888</u>
Fixed Charges:					
Interest expense	\$ 5,526	\$ 7,839	\$ 9,930	\$ 10,435	\$ 5,427
Capitalized interest	-	-	-	171	22
Discounts & deferred financing fees	11,402	10,680	10,106	9,583	6,967
Interest portion of rental expense	766	848	1,053	850	574
Total fixed charges	<u>\$ 17,694</u>	<u>\$ 19,367</u>	<u>\$ 21,089</u>	<u>\$ 21,039</u>	<u>\$ 12,990</u>
Ratio of earnings to fixed charges	<u>3.7</u>	<u>3.5</u>	<u>0.1</u>	<u>2.0</u>	<u>2.8</u>

## SUBSIDIARIES OF GREATBATCH, INC.

<b><u>Subsidiary</u></b>	<b><u>Incorporated</u></b>
Greatbatch Ltd., doing business as Greatbatch Medical (direct subsidiary of Greatbatch, Inc.)	New York
Greatbatch LLC (direct subsidiary of Greatbatch Ltd.)	Delaware
Greatbatch Medical, S. de R.L. de C.V. (owned 99% by Greatbatch LLC & 1% by Greatbatch, Inc.)	Mexico
Electrochem Solutions, Inc. (direct subsidiary of Greatbatch Ltd.)	Massachusetts
Micro Power Electronics, Inc. (direct subsidiary of Electrochem Solutions, Inc.)	Delaware
Greatbatch-Globe Tool, Inc., doing business as Greatbatch Medical (direct subsidiary of Greatbatch Ltd.)	Minnesota
Precimed, Inc., doing business as Greatbatch Medical (direct subsidiary of Greatbatch Ltd.)	Pennsylvania
QiG Group, LLC (direct subsidiary of Greatbatch Ltd.)	Delaware
P Medical Holding SA (direct subsidiary of Greatbatch Ltd.)	Switzerland
Greatbatch Medical SA (direct subsidiary of P Medical Holding SA)	Switzerland
Greatbatch Medical SAS (direct subsidiary of Greatbatch Medical SA)	France

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 333-61476, 333-97209, 333-129002, 333-143519, 333-161159, and 333-174559 on Form S-8, Post-Effective Amendment No. 1 to Registration Statement No. 333-107667 on Form S-3, and Registration Statement No. 333-142400 on Form S-3 of our reports dated February 28, 2012, relating to the consolidated financial statements and consolidated financial statement schedule of Greatbatch, Inc. and subsidiary (the "Company"), and the effectiveness of the Company's internal control over financial reporting, appearing in this Annual Report on Form 10-K of Greatbatch, Inc. for the year ended December 30, 2011.

*Deloitte & Touche LLP*

Williamsville, New York  
February 28, 2012

**CERTIFICATION**

I, Thomas J. Hook, certify that:

1. I have reviewed this report on Form 10-K for the fiscal year ended December 30, 2011 of Greatbatch, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditor and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 28, 2012



Thomas J. Hook  
President and Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION**

I, Thomas J. Mazza, certify that:

1. I have reviewed this report on Form 10-K for the fiscal year ended December 30, 2011 of Greatbatch, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditor and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 28, 2012

A handwritten signature in black ink, appearing to read 'Tom Mazza', is written over a solid horizontal line.

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

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

Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Greatbatch, Inc. (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 10-K for the fiscal year ended December 30, 2011 (the "Form 10-K") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 28, 2012



Thomas J. Hook  
President and Chief Executive Officer  
(Principal Executive Officer)

Dated: February 28, 2012



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

This certification is being furnished solely to accompany this Form 10-K pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise, and is not to be incorporated by reference into any filing of the Company unless such incorporation is expressly referenced within.

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**MR. WILSON GREATBATCH**  
1919 - 2011

More than 50 years ago in upstate New York, a young medical researcher was hard at work, building an oscillator to capture the sounds of the heart. Wilson Greatbatch did not intend to change the world that day, but by the end of it, he had made a discovery that would eventually become a device that changed the lives of millions of people around the world - the implantable pacemaker. This was only the beginning of an illustrious career as an inventor, environmentalist and ambitious thinker. The entire Greatbatch family was saddened by the loss of such a great man. His legacy will live on in the work we do and the lives we touch.

**Board of Directors**

**Pamela G. Bailey**  
President & Chief Executive Officer  
The Grocery Manufacturers Association

**Anthony P. Bihl III**  
Group President - AMS

**Michael Dinkins<sup>1</sup>**  
Executive Vice President & Chief Financial Officer  
USI Insurance Services

**Thomas J. Hook**  
President & Chief Executive Officer  
Greatbatch, Inc.

**Kevin C. Melia**  
Non-Executive Chairman  
Vette Corporation

**Dr. Joseph A. Miller, Jr.**  
Executive Vice President & Chief Technology Officer, Corning, Inc.

**Bill R. Sanford, Chairman**  
Founder & Chairman, Symark, LLC

**Peter H. Soderberg**  
Managing Partner, Worthy Ventures Resources, LLC

**William B. Summers, Jr.**  
Retired Chairman & Chief Executive Officer  
McDonald Investments, Inc.

**Dr. Helena S. Wisniewski**  
Vice Provost for Research and Graduate Studies and Dean of the Graduate School  
University of Alaska Anchorage



**Front row:** Kevin C. Melia, Thomas J. Hook, Bill R. Sanford, Dr. Helena S. Wisniewski; **Back row:** Pamela G. Bailey, Dr. Joseph A. Miller, Jr., Anthony P. Bihl III, Michael Dinkins, Peter H. Soderberg, William B. Summers, Jr.

**Shareholder Information**

**Investor Information**  
Shareholders, securities analysts and investors seeking more information about the company can access information via the Internet or from the Investor Relations Department:

10000 Wehrle Drive  
Clarence, NY 14031  
www.greatbatch.com

**Corporate Leadership**

**Thomas J. Hook**  
President & Chief Executive Officer

**Thomas J. Mazza<sup>1</sup>**  
Senior Vice President & Chief Financial Officer

**Mauricio Arellano**  
President, Greatbatch Medical

**Susan M. Bratton**  
Senior Vice President, Electrochem

**Michelle Graham**  
Senior Vice President, Human Resources

**Daniel R. Kaiser, PhD**  
Vice President, Chief Technology Officer

**Timothy G. McEvoy**  
Vice President, General Counsel & Secretary

**Transfer Agent and Registrar**

**Computershare Shareowner Services**  
480 Washington Boulevard  
Jersey City, NJ 07310

**Toll Free Domestic Phone No.:** 877-832-7265

**Foreign Shareowners:**  
201-680-6578

**TDD Hearing Impaired:**  
800-231-5469

**TDD Foreign Shareowners:**  
201-680-6610

**Website Address:**  
www.bnymellon.com/  
shareowner/equityaccess

**Independent Registered Public Accounting Firm**  
Deloitte & Touche LLP  
Williamsville, NY

<sup>1</sup> As previously announced, Michael Dinkins was appointed as Senior Vice President and Chief Financial Officer of Greatbatch, Inc. Thomas J. Mazza will assume the role of Vice President, Corporate Controller at the commencement of Michael Dinkins' employment.



**Greatbatch®**

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**Greatbatch**

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Clarence, NY 14031  
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fax 716-759-5560

**[www.greatbatch.com](http://www.greatbatch.com)**