GREATBATCH, INC.
Form 10-K
March 03, 2009

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

FORM 10-K

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

For The Fiscal Year Ended January 2, 2009

Commission File Number 1-16137

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

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

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 $.001 Per Share	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

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

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

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

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

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

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

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

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

The aggregate market value of common stock of Greatbatch, Inc. held by nonaffiliates as of June 27, 2008, based on the last sale price of $17.20, as reported on the New York Stock Exchange: $382.3 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 March 2, 2009: 23,039,217

DOCUMENTS INCORPORATED BY REFERENCE

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

Document	Part
Proxy Statement for the 2009 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"

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

OVERVIEW

Greatbatch, Inc. is a leading developer and manufacturer of critical products used in medical devices for the cardiac rhythm management, neuromodulation, vascular, orthopedic and interventional radiology markets. Additionally, Greatbatch, Inc. is a world leader in the design, manufacture and distribution of electrochemical cells, battery packs and wireless sensors for demanding applications in markets such as energy, security, portable medical, environmental monitoring and more. When used in this report, the terms "we," "us," "our" and the "Company" mean Greatbatch, Inc. and its subsidiaries.

We believe that our proprietary technology, close customer relationships, multiple product offerings, market leadership and dedication to quality provide us with competitive advantages and create a barrier to entry for potential market entrants.

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

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

Acquisition date	Acquired company	Business at time of acquisition
July 2002	Globe Tool and Manufacturing Company, Inc. (“Globe”)	Founded in 1954, the company designed and manufactured precision enclosures used in IMDs and commercial products used in the aerospace, electronic, and automotive sectors.
March 2004	NanoGram Devices Corporation (“NanoGram”)	Founded in 1996, the company developed nanoscale materials for battery and medical device applications.
April 2007	BIOMEC, Inc. (“BIOMEC”)	Established in 1998, the company provided medical device design and component integration to early-stage and established customers.
June 2007	Enpath Medical, Inc. (“Enpath”)	Founded in 1981, the company designed, developed, and manufactured venous introducers and dilators, implantable leadwires, steerable sheaths and steerable catheters.
October 2007	IntelliSensing LLC (“IntelliSensing”)	Established in 2005, the company designed and manufactured battery-powered wireless sensing solutions for demanding commercial applications.
November 2007	Quan Emerteq LLC (“Quan”)	Founded in 1998, the company designed, developed, and manufactured single use medical device products and components including delivery systems, catheters, stimulation leadwires and microcomponents and assemblies.
November 2007	Engineered Assemblies Corporation (“EAC”)	Founded in 1984, the company designed and integrated custom battery solutions and electronics focused on rechargeable systems.
January 2008	P Medical Holding SA (“Precimed”)	Founded in 1994, the company designed, manufactured and supplied trays, instruments and implants for orthopedic original equipment manufacturers (“OEM”).
February 2008	DePuy Orthopaedics’ Chaumont, France manufacturing facility (“DePuy”)	The facility manufactured hip, shoulder trauma and knee implants for DePuy.

FINANCIAL STATEMENT YEAR END

We utilize a fifty-two, fifty-three week fiscal year ending on the Friday nearest December 31st. Fiscal years 2008, 2007 and 2006 ended on January 2, 2009, December 28, 2007 and December 29, 2006, respectively. Fiscal year 2008 contained fifty-three weeks while fiscal years 2007 and 2006 contained fifty-two weeks.

SEGMENT INFORMATION

We operate our business in two reportable segments – Implantable Medical Components ("IMC") and Electrochem Solutions ("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 15 – "Business Segment Information" of the Notes to the Consolidated Financial Statements contained at Item 8 of this report.

IMPLANTABLE MEDICAL DEVICE INDUSTRY

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

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

A new emerging opportunity sector of the IMD market is the neuromodulation market, which is comprised of pacemaker-type devices that stimulate nerves for the treatment of various conditions. Beyond approved therapies of pain control, incontinence, 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 symptom treated by each device:

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

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

- Advances in medical technology – new therapies will allow physicians to use IMDs to treat a wider range of heart diseases.
- New, more sophisticated implantable devices – device manufacturers are developing new CRM devices and adding new features to existing products.
- New indications for CRM devices – the patient groups that are eligible for CRM devices have increased. Insurance guidelines may allow device reimbursements for these expanding patient populations.
    - Growth within neuromodulation – approved segments growing at 17% CAGR with additional new indications and therapies targeted to complete clinical activities within two years.
- Expansion of neuromodulation applications – therapies expected to expand as new therapeutic applications for pulse generators are identified.
- An aging population – the number of people in the U.S. that are over age 65 is expected to double in the next 30 years.
- New performance requirements – government regulators are increasingly requiring that IMDs be protected from electromagnetic interference ("EMI").
    - Global markets – increased market penetration worldwide.

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

- Continued focus on minimally invasive procedures – Patients and health care providers looking for minimally invasive technologies to treat disease expanding both catheter based procedures and associated vascular access.

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

ELECTROCHEM SOLUTIONS INDUSTRY

Our customized rechargeable and non-rechargeable battery solutions are used in a number of demanding industrial markets such as energy, security, portable medical, environmental monitoring and more. Applications in these segments cover a number of battery-powered systems including downhole drilling tools, hand-held military communications, automated external defibrillators, and more.

Electrochem's primary power systems are used in these core markets because of extreme operating conditions and long life requirements. Our primary batteries operate reliably and safely at extremely high and low temperatures and with high shock and vibration.

Our rechargeable power systems include a number of chemistries including lithium, nickel and lead acid. We provide value-added solutions to complement our secondary power systems such as charging and battery management.

Our unique wireless sensing system is a complete solution, incorporating advanced, ruggedized sensors, gateways and software. Electrochem's patented system is a complete solution, utilizing our own battery power and offering control and monitoring for applications in existing markets such as energy and new markets such as process control.

We expect the demand for reliable portable power and integrated wireless sensing solutions to continue to rise with demand in energy, security and portable medical segments.

PRODUCTS

The following table provides information about our principal products:

IMPLANTABLE MEDICAL COMPONENTS:

PRODUCT	DESCRIPTION	PRINCIPAL PRODUCT ATTRIBUTES
Batteries	Power sources include: ¨Lithium iodine ("Li Iodine") ¨Lithium silver vanadium oxide ("Li SVO") ¨Lithium carbon monoflouride ("Li CFx") ¨Lithium ion rechargeable ("Li Ion") ¨Lithium SVO/CFx ("QHR" & "QMR")	High reliability and predictability Long service life Customized configuration Light weight Compact and less intrusive
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
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

PRODUCT	DESCRIPTION	PRINCIPAL PRODUCT ATTRIBUTES
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
Implants	Orthopedic implants for reconstructive hip, shoulder, knee, trauma and spine procedures	Precision manufacturing, leveraging capabilities and products, complete processes including sterile packaging and coatings
Instruments	Orthopedic instruments for reconstructive and trauma procedures	Designed to improve surgical techniques, reduce surgery time, increase surgical precision and decrease risk of contamination
Trays	Delivery systems for cleaning and sterilizing orthopedic instruments and implants	Deliver turn-key full service kits
ELECTROCHEM SOLUTIONS:		
Cells	¨Moderate-rate ¨Spiral (high rate)	Optimized rate capability, shock and vibration resistant High energy density
Primary and rechargeable battery packs	Bundling of commercial batteries in a customer specific configuration	Increased power and recharging capabilities and ease of integration into customer applications
Wireless sensors	Operates where wired sensors are undesirable or impractical	Measures pressure and temperature at the same time, withstands harsh environments

RESEARCH AND DEVELOPMENT

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

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. We have 372 active U.S. patents and 264 active foreign patents. We also have 272 U.S. and 373 foreign pending patent applications at various stages of approval. During the past three years, we have been granted 87 new U.S. patents, of which 13 were granted in 2008. Corresponding foreign patents have been issued or are expected to be issued in the near future. Often, several patents covering various aspects of the design protect a single product. We believe this provides broad protection of the inventions employed.

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

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

MANUFACTURING AND QUALITY CONTROL

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

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

The Quality Systems of our facilities in Tijuana, Mexico, Minneapolis, MN, Clarence, NY (machining and assembly of components), and the Orvin, Switzerland (Precimed) sites are certified to the requirements of ISO 13485 for the design (where applicable) and manufacture of components and finished device assemblies. This level of certification allows for the manufacture and distribution (via CE mark) of finished medical devices as well as device components in Europe and finished medical devices in Canada. This certification gives us the ability to serve as a manufacturing partner to medical device manufacturers, which we believe will improve our competitive position in the vascular access, CRM and emerging neuromodulation and orthopedic markets. Our Vascular Access facility (Minneapolis, MN) and several of our Orthopedics facilities (Switzerland and France) are also registered with the FDA, thus enabling the manufacture and distribution of FDA cleared registered medical devices inside the U.S.

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

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

SALES AND MARKETING

Products from our IMC business are sold directly to our customers. In our Electrochem business, we utilize a combination of direct and indirect sales methods, depending on the particular product. In 2008, approximately 49% of our products were sold in the U.S. Sales to countries outside of 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 15 – "Business Segment Information" of the Notes to the Consolidated Financial Statements contained at Item 8 of this report.

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

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

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

Firm backlog orders at January 2, 2009 and December 28, 2007 were approximately $190.4 million and $107.2 million, respectively. Most of these orders are expected to be shipped within one year. See Customers section below for further discussion.

CUSTOMERS

Our IMC customers include leading OEMs, in alphabetical order here and throughout this report, such as Biotronik, Boston Scientific, DePuy, Johnson & Johnson, Medtronic, Smith & Nephew, Sorin Group, St. Jude Medical, Stryker and Zimmer. During 2007 and 2008, we completed seven acquisitions consistent with our strategic objective to diversify our customer base and market concentration. As a result, in 2008, Boston Scientific, Medtronic and St. Jude Medical, collectively accounted for 44% of our total sales, compared to 67% in 2007 and 2006.

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

Our Electrochem customers are primarily companies involved in demanding applications in markets such as energy, security, portable medical and environmental monitoring including Halliburton Company, Weatherford International, General Electric, Thales, Zoll Medical Corp. and Scripps Institution of Oceanography.

SUPPLIERS AND RAW MATERIALS

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

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

COMPETITION

Existing and potential competitors in our IMC business includes leading IMD manufacturers such as Biotronik, Boston Scientific, DePuy, 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.

Our known non-vertically integrated competitors include the following:

Product Line	Competitors
Medical batteries	Litronik (a subsidiary of Biotronik)
	Eagle-Picher
Capacitors	Critical Medical Components
Feedthroughs	Alberox (subsidiary of The Morgan Crucible Co. PLC)
EMI filtering	AVX (subsidiary of Kyocera)
	Eurofarad
Enclosures	Heraeus
	Hudson
Commercial batteries/battery packs	Engineered Power
	Saft
	Tadiran
	Tracer Technologies
	Ultralife
	Nexergy
	Micro-power
	Accutech
	vMonitor

Product Line	Competitors
Machined and molded components	Numerous
Value added assembly	Numerous
Orthopedic trays, instruments and implants	Symmetry Paragon Accelent Teleflex Viasys Orchid
Catheters	Teleflex
Leads	Oscor

GOVERNMENT REGULATION

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

To varying degrees, our products are subject to regulation by numerous government agencies, including the U.S. Food and Drug Administration (“FDA”) and comparable foreign agencies. The medical product components we manufacture are not subject to regulation by the FDA. However, the FDA and related state and foreign governmental agencies regulate the completed devices we manufacture as well as our customers’ products as finished medical devices.

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

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

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

As a manufacturer of medical devices, we are also subject to certain other FDA regulations and our device manufacturing processes and facilities are subject to on-going review by the FDA in order to ensure compliance with the current Good Manufacturing Practices Regulation (21CFR820). We believe that our manufacturing and quality and regulatory systems conform to the requirements of all pertinent FDA regulations. Our sales and marketing practices are subject to regulation by the U.S. Department of Health and Human Services pursuant to federal anti-kickback laws, and are also subject to similar state laws.

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

RECRUITING AND TRAINING

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

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

EMPLOYEES

The following table provides a breakdown of employees as of January 2, 2009:

Manufacturing	1,580
General and administrative	139
Sales and marketing	36
Research, development and engineering	199
Chaumont, France facility	214
Switzerland facilities	233
Tijuana, Mexico facility	882
Total	3,283

We also employ a number of temporary employees to assist us with various projects and service functions and address peaks in staff requirements. Our employees are not represented by any union. Approximately 170 and 180 positions at our Switzerland and France locations, respectively, are manufacturing in nature. The positions at our Tijuana, Mexico facility are primarily manufacturing. 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 March 2, 2009. The officers' terms of office run until the first meeting of the Board of Directors after our Annual Meeting, which takes place immediately following our Annual Meeting of Stockholders and until their successors are elected and qualified, except in the case of earlier death, retirement, resignation or removal.

Mauricio Arellano, age 42, is Senior Vice President and the Business Leader for our Cardiac and Neurology Group. He served as the Senior Vice President and Business Leader of our CRM and Neuromodulation Group from January 2008 to October 2008, 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 52, is Senior Vice President and Business Leader for our Commercial Group. She served as Vice President of Corporate Quality from March 2001 to January 2005, as General Manager of our Electrochem Division from July 1998 to March 2001 and as Director of Procurement from June 1991 to July 1998. Ms. Bratton has held various other positions with our Company since joining us in 1976.

Susan H. Campbell, age 44, is Senior Vice President and the Business Leader for our Orthopedics Group. Ms. Campbell had served as Senior Vice President for Global Manufacturing and Supply Chain from January 2008 until October 2008 and the Business Leader for our Medical Power Group from January 2005 until January 2008. She joined our Company in April 2003 as the Plant Manager for our medical battery facility. Prior to that time, Ms. Campbell was a plant manager for Delphi Corporation and General Motors Corporation.

Barbara M. Davis, age 58, is Vice President for Human Resources, a position she has held since April 2004. She joined our Company in October 1998 as Director of Human Resources and Organization Development.

Richard M. Farrell, age 46, is Vice President of our QIG Group. Mr. Farrell joined the Company with our acquisition of Quan in November 2007 as Vice President for Business Development. He was a founder of and had been employed by Quan in a variety of roles, since 1998, most recently as its Vice President of Business Development.

Thomas J. Hook, age 46, is our President & Chief Executive Officer. 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 55, is Senior Vice President & Chief Financial Officer, a position he has held since August 2005. He joined our Company in November 2003 as Vice President and Corporate Controller. Prior to that, Mr. Mazza served in a variety of financial roles with Foster Wheeler Ltd., including Vice President and Corporate Controller.

Timothy G. McEvoy, age 51, is Vice President, General Counsel & Secretary, a position he has held since joining our Company in February 2007. From 1992 until January 2007, he was employed in a variety of legal roles by Manufacturers and Traders Trust Company, most recently as Administrative Vice President and Deputy General Counsel.

AVAILABLE INFORMATION

We make available free of charge through our internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file those reports with, or furnish them to, the Securities and Exchange Commission. Our Internet address is www.greatbatch.com. The information contained on our website is not incorporated by reference in this annual report on Form 10-K and should not be considered a part of this report. These items may also be obtained free of charge by written request made to Christopher J. Thome, Manager 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, which are subject to known and unknown risks, uncertainties and assumptions.
They include statements relating to:

- future sales, expenses and profitability;
- the future development and expected growth of our business and 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," "p "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially from those suggested by these forward-looking statements. In evaluating these statements and our prospects generally, you should carefully consider the factors set forth below. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary factors and to others contained throughout this report. We are under no duty to update any of the forward-looking statements after the date of this report or to conform these statements to actual results.

Although it is not possible to create a comprehensive list of all factors that may cause actual results to differ from the results expressed or implied by our forward-looking statements or that may affect our future results, some of these factors include the following: dependence upon a limited number of customers; customer ordering patterns; product obsolescence; our inability to market current or future products; pricing pressure from customers; our ability to timely and successfully implement our 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 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; and other risks and uncertainties that arise from time to time and are described in Item 1A of this report.

ITEM 1A. RISK FACTORS

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

Risks Related To Our Business

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

In 2008, Boston Scientific, Medtronic and St. Jude Medical, collectively accounted for approximately 44% of our revenues. Our supply agreements with these customers might not be renewed. Furthermore, many of our supply agreements do not contain minimum purchase level requirements and therefore there is no guaranteed source of revenue that we can depend upon under these agreements. The loss of any large customer or a reduction of business with that customer for any reason would harm our business, financial condition and results of operations.

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

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

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

The market for our medical and commercial products has been growing in recent years. If the market for our products does not grow as rapidly as forecasted by industry experts, our revenues could be less than expected. In addition, it is difficult to predict the rate at which the market for our products will grow or at which new and increased competition will result in market saturation. Slower growth in the CRM, Orthopedic, 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. Raw materials needed for our business are susceptible to fluctuations due to transportation, government regulations, price controls, economic climate or other unforeseen circumstances. Increasing global demand for some of the raw materials we need for our business, including platinum, iridium, gallium trichloride, tantalum and titanium, has caused the prices of these materials to increase significantly. In addition, there are a limited number of worldwide suppliers of several raw materials needed to manufacture our products, including lithium, gallium trichloride, carbon monofluoride, and tantalum. We may not be able to continue to procure raw materials critical to our business or to procure them at acceptable price levels.

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

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

At January 2, 2009, we had $428.6 million of intangible assets, representing 50% of our total assets. These intangible assets consist primarily of goodwill, trademarks, tradenames, customer lists and patented technology arising from our acquisitions. Goodwill and other intangible assets with indefinite lives are not amortized, but are tested annually or upon the occurrence of certain events that indicate that the assets may be impaired. We may not receive the recorded value for our intangible assets if we sell or liquidate our business or assets. In addition, the material concentration of intangible assets increases the risk of a large charge to earnings in the event that the recoverability of these intangible assets is impaired, and in the event of such a charge to earnings, the market price of our common stock could be adversely affected. In addition, intangible assets with definite lives, which represent $90.3 million of our net intangible assets at January 2, 2009, will continue to be amortized. We incurred total amortization expenses relating to these intangible assets of $10.7 million in 2008. These expenses will reduce our future earnings or increase our future losses.

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

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

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

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

Regulatory issues resulting from product complaints/recalls or regulatory body 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 pertinent regulations and standards. However, a product complaint recall or negative regulatory body audit may cause products to be removed from the market. In addition, during the corrective phase, regulatory bodies 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 may arise from failure to meet product specifications, misuse or malfunction of, or design flaws in our products, or use of our products with components or systems not manufactured or sold by us. Many of our products are components and function in interaction with our customers' medical devices. For example, our batteries are produced to meet various electrical performance, longevity and other specifications, but the actual performance of those products is dependent on how they are in fact utilized as part of the customers' devices over the lifetime of the products. Product performance and device interaction from time to time have been, and may in the future be, different than expected for a number of reasons. Consequently, it is possible that customers may experience problems with their medical devices that could require device recall or other corrective action, where our batteries met the specification at delivery, and for reasons that are not related primarily or at all to any failure by our product to perform in accordance with specifications. It is possible that our customers (or end-users) may in the future assert that our products caused or contributed to device failure where our product was not the primary cause of the device performance issue. Even if these assertions do not lead to product liability or contract claims, they could harm our reputation and our customer relationships.

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

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

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

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

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

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

We rely on a combination of patents, licenses, trade secrets and know-how to establish and protect our proprietary rights to our technologies and products. As of January 2, 2009, we held 372 active U.S. patents and 264 active foreign patents. However, the steps we have taken or will take to protect our proprietary rights may not be adequate to deter misappropriation of our intellectual property. In addition to seeking formal patent protection whenever possible, we attempt to protect our proprietary rights and trade secrets by entering into confidentiality and non-compete agreements with employees, consultants and third parties with which we do business. However, these agreements can be breached and, if they are, there may not be an adequate remedy available to us and we may be unable to prevent the unauthorized disclosure or use of our technical knowledge, practices or procedures. If our trade secrets become known, we may lose our competitive advantages.

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

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

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

Any litigation or other challenges regarding our patents or other intellectual property could be costly and time consuming and could divert our management and key personnel from our business operations. The complexity of the technology involved in producing our products, and the uncertainty of intellectual property litigation increases these risks. Claims of intellectual property infringement might also require us to enter into costly royalty or license agreements. However, we may not be able to obtain royalty or license agreements on terms acceptable to us, or at all. We also may be subject to significant damages or injunctions against development and sale of our products. See “Litigation” of Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations.

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

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

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

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

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

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

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

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

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

A component of our strategy is to make acquisitions that complement our core competencies in technology and manufacturing to enable us to manufacture and sell additional products to our existing customers and to expand our business into related markets. Our continued growth 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. Our failure to acquire additional companies could cause our operating results to suffer.

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

Competition in connection with the manufacturing of our products may intensify in the future. One or more of our customers may undertake additional vertical integration initiatives and begin to manufacture some or all of their components that we currently supply them which could cause our operating results to suffer. The market for commercial power sources is competitive, fragmented and subject to rapid technological change. Many other commercial power source suppliers are larger and have greater financial, operational, personnel, sales, technical and marketing resources than our company. These and other companies may develop products that are superior to ours, which could result in lower revenues and operating results.

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

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

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

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

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

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

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

Our sales to countries outside the U.S., which accounted for 51% of net sales for 2008, our Mexico, Switzerland and France locations are subject to certain foreign country risks. Our international operations are, and will continue to be, subject to a number of risks and potential costs, including:

- 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 incur certain expenses related to our foreign 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 adversely affect our financial condition.

As of January 2, 2009, we had $352.9 million of long-term debt with varying maturities, including our convertible subordinated notes and revolving line of credit. These arrangements 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 obligations, fund operations, and fund our strategic initiatives. An interruption in our access to external financing or financial transactions to hedge risk could adversely affect our business prospects and financial condition. See further information regarding our liquidity in “Liquidity and Capital Resources” under Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”
25

Risks Related To Our Industries

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

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

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

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our executive offices are located in Clarence, New York. The following table sets forth information about all of our significant facilities as of January 2, 2009:

Location	Sq. Ft.	Own/Lease	Principal Use
Alden, NY	125,000	Own	Medical battery and capacitor manufacturing
Blaine, MN	32,400	Own	Medical device manufacturing and engineering (formerly Quan)
Canton, MA	32,000	Own	Commercial battery manufacturing and research, development and engineering ("RD&E").
Chaumont, France	59,200	Own	Manufacturing of orthopedic and surgical goods (formerly DePuy)
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 strategic design and innovation (formerly BIOMEC)
Columbia City, IN	40,000	Lease	Manufacturing of orthopedic and surgical goods (formerly Precimed)

Corgemont, Switzerland	34,400	Lease	Manufacturing of orthopedic and surgical goods (formerly Precimed)
Indianapolis, IN	82,600	Own	Manufacturing of orthopedic and surgical goods (formerly Precimed)
Minneapolis, MN	72,000	Own	Enclosure manufacturing and engineering
Orvin, Switzerland	34,400	Own	Manufacturing of orthopedic and surgical goods (formerly Precimed)
Plymouth, MN	95,700	Lease	Introducers, catheters and leads manufacturing and engineering (formerly Enpath)
Raynham, MA	81,000	Own	Commercial battery manufacturing and RD&E
Teterboro, NJ	23,500	Lease	Office, warehousing and manufacturing (formerly EAC)
Tijuana, Mexico	144,000	Lease	Value-added assembly, and feedthrough, electrode and EMI filtering manufacturing

We believe these facilities are suitable and adequate for our current business. During 2008, construction of our new 81,000 square foot manufacturing facility in Raynham, MA was completed. Additionally, the expansion of our research and development location in Clarence, NY was completed in mid-2008. This provided an additional 35,000 square feet of space for our corporate headquarters and replaced the 45,000 square feet of leased space previously utilized. Finally, in 2008 we ceased operations at our Orchard Park, NY, Suzhou, China, and Saignelegier, Switzerland facilities.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various legal actions arising in the normal course of business. While we do not believe that the ultimate resolution of any such pending activities will have a material adverse effect on our consolidated results of operations, financial position, or cash flows, litigation is subject to inherent uncertainties. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact in the period in which the ruling occurs.

As previously reported, on June 12, 2006, Enpath was named as defendant in a patent infringement action filed by Pressure Products Medical Supplies, Inc. ("Pressure Products") in which Pressure Products alleged that Enpath's FlowGuard™ valved introducer, which has been on the market for more than three years, and Enpath's ViaSeal™ prototype introducer, which has not been sold, infringes claims in Pressure Products patents. After trial, a jury found that Enpath infringed the Pressure Products patents, but not willfully, and awarded damages in the amount of $1.1 million. Enpath has appealed the final judgment to the U.S. Court of Appeals for the Federal Circuit. As a result of a post-trial motion and pending the appeal, Enpath is permitted to continue to sell FlowGuard™ provided that Enpath pays into an escrow fund a royalty of between $1.50 and $2.25 for each sale of a FlowGuard™ valved introducer. The amount accrued as escrow during 2008 was $0.5 million. During 2008, the Company incurred $4.5 million of costs related to this litigation.

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

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

No matters were submitted to a vote of security holders during the fourth quarter of 2008.

PART II

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

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

2007	High	Low	Close
First Quarter 2007	$ 30.05	$ 25.04	$ 25.50
Second Quarter 2007	33.17	25.31	32.40
Third Quarter 2007	34.96	26.00	26.59
Fourth Quarter 2007	27.50	18.52	19.91
2008			
First Quarter 2008	$ 23.48	$ 17.18	$ 18.79
Second Quarter 2008	19.79	15.49	17.20
Third Quarter 2008	27.08	16.86	25.78
Fourth Quarter 2008	27.41	17.72	26.72

As of March 2, 2009 there were 250 record holders of the Company's common stock. The Company stock account included in our 401(k) plan is considered one record holder for the purposes of this calculation. There are approximately 1,700 holders of Company stock in the 401(k) including active and former employees. We have not paid cash dividends and currently intend to retain any earnings to further develop and grow our business.

To satisfy minimum tax withholding requirements on vested restricted stock awards as allowed under the Company's 2002 and 2005 stock incentive plans, the Company repurchased 56,755 shares from employees of the Company at an average cost of $24.57 per share in 2008. The price of these repurchases was based upon the closing market price of the Company's stock on the date of vesting.

PERFORMANCE GRAPH

The following graph compares for the five year period ended January 2, 2009, the cumulative total stockholder return for Greatbatch, Inc., the S&P SmallCap 600 Index, and the Hemscott Peer Group Index. The Hemscott Peer Group Index includes approximately 200 comparable companies included in the Hemscott Industry Group 520 Medical Instruments & Supplies and 521 Medical Appliances & Equipment. The graph assumes that $100 was invested on January 2, 2004 and assumes reinvestment of dividends. The stock price performance shown on the following graph is not necessarily indicative of future price performance:

ITEM 6. SELECTED FINANCIAL DATA

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

Years ended	Jan. 2, 2009 (3)	Dec. 28, 2007 (3)	Dec. 29, 2006	Dec. 30, 2005	Dec. 31, 2004
			(in thousands, except per share data)		
Consolidated Statement of Operations Data:					
Sales	$ 546,644	$ 318,746	$ 271,142	$ 241,097	$ 200,119
Income before income taxes	27,303(1)	28,688(1)	23,534(1)	15,464(1)(2)	23,732(2)
Income per share					
Basic	$ 0.82	$ 0.68	$ 0.74	$ 0.47	$ 0.67
Diluted	0.81	0.67	0.73	0.46(2)	0.66(2)
Consolidated Balance Sheet Data:					
Working capital	$ 142,219	$ 116,816	$ 199,051	$ 151,958	$ 132,360
Total assets	848,931	663,851	547,827	512,911	476,166
Long-term obligations	404,827	276,772	205,859	200,261	193,948

(1) From 2005 to 2008, we recorded charges in other operating expenses, net related to our ongoing cost savings and consolidation efforts. Additional information is set forth at Note 11 – "Other Operating Expenses" of the Notes to the Consolidated Financial Statements contained in Item 8 of this report.

(2) Beginning in fiscal year 2006, we adopted Financial Accounting Standards Board, Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123(R)"), and related Securities and Exchange Commission rules included in Staff Accounting Bulletin No. 107. Under SFAS No. 123(R) we are now required to record compensation costs related to all stock-based awards. Income before income taxes and diluted earnings per share would have been lower by $3.4 million or $0.10 per share for 2005, respectively, and $3.2 million or $0.10 per share for 2004, respectively. Additional information is set forth at Note 10 – "Stock-Based Compensation" of the Notes to the 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 BIOMEC, Inc. (April 2007), Enpath Medical, Inc. (June 2007), IntelliSensing, LLC (October 2007), Quan Emerteq, LLC (November 2007), and Engineered Assemblies Corporation (November 2007). These amounts include the results of operations of these companies subsequent to their acquisitions. As a result of these acquisitions, the Company recorded charges in 2008 and 2007 of $8.7 million and $17.8 million, respectively related to inventory step up amortization and in process research and development. Additional information is set forth at Note 2 – "Acquisitions" of the Notes to the 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.

Overview

Our Business

- Our business
- CEO message
- Our acquisitions
- Our customers
- Financial overview
- Product development

Cost Savings and Consolidation Efforts

- 2005 & 2006 facility shutdowns and consolidations
- 2007 & 2008 facility shutdowns and consolidations

Our Critical Accounting Estimates

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

Our Financial Results

- Results of operations table
- Fiscal 2008 compared with fiscal 2007
- Fiscal 2007 compared with fiscal 2006
- 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 – Implantable Medical Components ("IMC") and Electrochem Solutions ("Electrochem"). Our IMC business designs and manufactures components and devices for the Cardiac Rhythm Management ("CRM"), Neuromodulation, Vascular Access and Orthopedic markets. Additionally, our IMC business offers value-added assembly and design engineering services for products that incorporate Implantable Medical Device ("IMD") components.

Our IMC customers include leading original equipment manufacturers ("OEM"), in alphabetical order here and throughout this report, such as Biotronik, Boston Scientific, DePuy Orthopaedics, Johnson & Johnson, Medtronic, Smith & Nephew, Sorin Group, St. Jude Medical, Stryker and Zimmer. We entered the Vascular Access and Orthopedic markets through our acquisitions in 2008 and 2007.

Electrochem is a world leader in the design, manufacture and distribution of electrochemical cells, battery packs and wireless sensors for demanding applications in markets such as energy, security, portable medical, environmental monitoring and more. Electrochem broadened its product portfolio through its acquisitions of Engineered Assemblies Corporation ("EAC") and IntelliSensing, LLC in 2007, and can now design and provide its customers rechargeable battery and wireless sensor systems.

CEO Message

The last two years have represented significant change at Greatbatch. As our diversification strategy continues to progress, we have acquired seven companies, streamlined operations, and have built a diverse offering of products and unique technologies to better serve an expanded customer base. The results of this are made evident by our record sales in 2008.

Our 2008 results reflect the continued successful execution of our strategic plan. Despite the turmoil in the broader economy, our diversification strategy and focus on delivering innovative solutions for our customers enabled us to drive improved operating performance. Additionally, to support our growth strategies, we are working diligently on the integration of our family of companies so we can optimize performance and deliver innovative value to our customers and our shareholders. We are extremely satisfied with the progress we have made on the integration of our acquisitions. In addition, we remain committed to ongoing improvements in our operating performance through further leveraging our diversified revenue base, continued facility consolidation, and product development activities which are focused on high value-added products across all of our business segments. We will continue to evaluate opportunities to leverage our cutting edge technology, operational capabilities, and unmatched dedication to driving innovation for our customers. We believe we have set a solid foundation to further strengthen and expand our position in the marketplace and we remain confident in Greatbatch's future growth opportunities.

Our Acquisitions

On April 3, 2007, we acquired substantially all of the assets of BIOMEC, Inc. ("BIOMEC"). BIOMEC is a biomedical device company based in Cleveland, OH. The results of BIOMEC's operations were included in our IMC business from the date of acquisition. The purchase price and other direct costs of BIOMEC totaled $11.4 million, which we paid in cash. Total assets acquired from BIOMEC were $12.0 million, of which $7.4 million were intangible assets, including $2.3 million of in-process research and development ("IPR&D"), which we immediately expensed, and $5.1 million of goodwill.

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

On October 26, 2007 we acquired substantially all of the assets of IntelliSensing, LLC ("IntelliSensing"). IntelliSensing designs and manufactures wireless sensor solutions that measure temperature, pressure, flow and other critical data. The results of IntelliSensing's operations were included in our Electrochem business from the date of acquisition. The purchase price and other direct costs of IntelliSensing totaled $3.9 million, which we paid in cash. Total assets acquired from IntelliSensing were $4.0 million, of which $3.8 million were intangible assets, including $1.9 million of goodwill.

On November 16, 2007, we acquired substantially all of the assets of Quan Emerteq, LLC ("Quan"). Quan designs, develops and manufactures single use medical device products for the vascular, CRM and neuromodulation markets. The results of Quan's operations were included in our IMC business from the date of acquisition. The purchase price and other direct costs of Quan totaled $60.0 million, which we primarily paid in cash. Total assets acquired from Quan were $62.8 million, of which $52.4 million were intangible assets, including $32.2 million of goodwill.

On November 16, 2007, we acquired substantially all of the assets of Engineered Assemblies Corporation ("EAC"). EAC is a leading provider of custom battery solutions and electronics integration focused on rechargeable battery systems. The results of EAC's operations were included in our Electrochem business from the date of acquisition. The purchase price and other direct costs of EAC totaled $15.1 million, which we paid in cash. Total assets acquired from EAC were $16.7 million, of which $7.9 million were intangible assets, including $5.5 million of goodwill.

On January 7, 2008, we acquired P Medical Holding SA ("Precimed") which has administrative offices in Orvin, Switzerland and Exton, PA, manufacturing operations in Switzerland and Indiana and sales offices in Japan, China and the United Kingdom. Precimed is a leading technology-driven supplier to the orthopedic industry. The results of Precimed's operations were included in our IMC business from the date of acquisition. The purchase price and other direct costs of Precimed totaled $85.0 million, which we paid in cash. Total assets acquired from Precimed were $143.0 million, of which $82.3 million were intangible assets, including $2.2 million of IPR&D which we immediately expensed, and $47.2 million of goodwill.

On February 11, 2008, Precimed completed its previously announced acquisition of DePuy Orthopaedics ("DePuy") Chaumont, France manufacturing facility (the "Chaumont Facility"). The Chaumont Facility produces hip and shoulder implants for DePuy Ireland who distributes them worldwide through various DePuy selling entities. This transaction included a new four year supply agreement with DePuy. The results of DePuy's operations were included in our IMC business from the date of acquisition. The purchase price and other direct costs of the Chaumont Facility totaled $28.7 million, which was paid in cash. Total assets acquired from the Chaumont Facility were $29.3 million, of which $6.6 million was goodwill.

Going forward, we expect the pace of acquisitions to be less than the 2008 & 2007 level. However, we will continue to pursue strategically targeted and opportunistic acquisitions.

Our Customers

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

Our IMC customers include leading OEMs, such as Biotronik, Boston Scientific, DePuy, Johnson & Johnson, Medtronic, Smith & Nephew, Sorin Group, St. Jude Medical, Stryker and Zimmer. During 2007 and in the first quarter of 2008, we completed seven acquisitions in order to diversify our customer base and market concentration. As a result, in 2008 Boston Scientific, Medtronic and St. Jude Medical collectively accounted for 44% of our total sales, compared to 67% in 2007 and 2006.

Our Electrochem customers are primarily companies involved in energy, security, portable medical, environmental monitoring and more. We have entered into long-term supply agreements with some of those customers. Some of these customers include, General Electric, Halliburton Company, PathFinder Energy Services and Weatherford International.

Financial Overview

We achieved sales of $546.6 million for 2008, an increase of 71% over the previous year. 2008 benefitted from our acquisitions in 2007 and 2008 which added approximately $208.2 million of incremental revenue as well as organic growth of 7%. This included approximately $10 million of revenue due to the additional week of sales in 2008 resulting from our fiscal year-end falling in 2009 (closest Friday to December 31st).

During 2008, we were extremely focused on the integration of our seven acquisitions from 2007 and 2008. This included the initiation and implementation of numerous cost savings and consolidation initiatives, as well as leveraging the diversified revenue base that we acquired to drive improved operating performance.

Our diluted earnings per share for 2008 totaled $0.81 compared to $0.67 for 2007. 2008 results were reduced by $0.59 per share of net charges and gains such as IPR&D charges, non-recurring acquisition related charges (inventory step-up amortization) and charges related to our cost savings and consolidation initiatives partially offset by a debt extinguishment gain. 2007 results were reduced by $0.60 per share of similar charges, net of gains.

We completed five acquisitions in 2007 and two in the first two months of 2008. These acquisitions were enabled by our strong cash position and the financing we put in place during the first half of 2007. As of January 2, 2009, we had $22.1 million in cash and cash equivalents and $352.9 million of long-term debt. Payment on $30.5 million of this debt is due in June 2010 with the remaining debt due in 2012 and 2013. For 2008, we generated $57.1 million of cash flow from operations compared to $43.0 million in 2007, an increase of 33%.

Product Development

Currently, we are developing a series of new products for customer applications in the CRM, neuromodulation, vascular access, orthopedics and commercial markets. Some of the key development initiatives include:

1. Continue the evolution of our Q series high rate ICD batteries;
2. Continue development of MRI compatible product lines;
3. Integrate Biomimetic coating technology with vascular access devices;
4. Complete design of next generation steerable catheters;
5. Advance minimally invasive surgical techniques for orthopedics industry;
6. Develop disposable instrumentation;
7. Provide wireless sensing solutions to commercial customers; and
8. Develop a charging platform for commercial secondary offering.

In May 2008, we announced the execution of a letter of intent in which the Sorin Group will leverage our MRI technology in their future CRM devices. At the same time we continue to explore and develop similar relationships with other customers in both the CRM and neuromodulation space. MRI compatible components are just one example of our strategy to continue to deliver innovative solutions for our customers that improve the functionality, safety, and efficiency of their products.

Approximately $2.3 million of the BIOMEC purchase price was allocated to the estimated fair value of acquired IPR&D projects that had not yet reached technological feasibility and had no alternative future use as of the acquisition date. The value assigned to IPR&D relates to projects that incorporate BIOMEC's novel-polymer coating (biomimetic) technology that mimics the surface of endothelial cells of blood vessels. An agreement was reached in 2008 with an OEM partner to provide coating material and services for their catheter products. Testing was conducted to support this application, and a 510(k) was submitted to the Food and Drug Administration ("FDA") in December requesting clearance to market this product. We expect approval of this 510(k) in early 2009, with product sales to commence following this clearance. There were no significant changes from our original estimates with regard to these projects during 2008.

Approximately $13.8 million of the Enpath purchase price was allocated to the estimated fair value of acquired IPR&D projects that had not yet reached technological feasibility and had no alternative future use. These projects primarily represent the next generation of introducer and catheter products already being sold by Enpath which incorporate new enhancements and customer modifications. One introducer project was launched near the end of 2008. We expect to commercially launch the other introducer products under development in 2009 which will replace existing products. These introducer projects acquired have been delayed due to timing of customer adoption and transition and technical difficulties of some of the projects. Additionally, future sales from our ViaSealTM introducer project have been enjoined due to litigation (See "Litigation"). The catheter IPR&D project, to which a portion of the Enpath purchase price was allocated, has been put on hold indefinitely in order to allocate resources to other projects. These delays in introducer and catheter projects are not expected to have a material impact on our results of operations.

Approximately $2.2 million of the Precimed purchase price was allocated to the preliminary estimated fair value of acquired IPR&D projects that had not yet reached technological feasibility and had no alternative future use. The value assigned to IPR&D related to Reamer, Instrument Kit, Locking Plate and Cutting Guide projects. These projects primarily represent the next generation of products already being sold by Precimed which incorporate new enhancements and customer modifications. We commercially launched a portion of these products in 2008 and expect to launch others in 2009. Several of the other orthopedic projects acquired have been delayed and two have been cancelled due to the timing of customer adoption, technical difficulties, inability to meet margin goals and feasibility assessments. These changes are not expected to have a material impact on our results of operations as these projects were assumed to have lower margins.

Cost Savings and Consolidation Efforts

From 2005 to 2008, we recorded charges in other operating expenses related to our ongoing cost savings and consolidation efforts. Additional information is set forth in Note 11 – "Other Operating Expenses" of the Notes to the Consolidated Financial Statements contained in Item 8 of this report.

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

In the first quarter of 2005, we announced our intent to close our Carson City, NV facility and consolidate the work performed at that facility into our Tijuana, Mexico facility. This consolidation project was completed in the third quarter of 2007.

In the fourth quarter of 2005, we announced our intent to close our Columbia, MD facility ("Columbia Facility") and Fremont, CA Advanced Research Laboratory ("ARL"). We also announced that the manufacturing operations at our Columbia Facility will be moved into our Tijuana Facility and that the research, development and engineering and product development functions at our Columbia Facility and at ARL will relocate to our technology center in Clarence, NY. The ARL portion of this consolidation project was completed in the fourth quarter of 2006. The Columbia Facility portion of this consolidation project was completed in the third quarter of 2008.

During the fourth quarter of 2006, we completed a plan for consolidating our corporate and business unit organization structure. A significant portion of the annual savings from this initiative was reinvested into research & development activities and business growth opportunities.

The total cost of these projects was $24.7 million, which was incurred from 2005 to 2008, and included the following:

- Severance and retention - $7.4 million;
- Production inefficiencies, moving and revalidation - $4.6 million;
- Accelerated depreciation and asset write-offs - $1.1 million;
- Personnel - $8.4 million; and
- Other - $3.2 million.

All categories of costs were considered to be cash expenditures, except accelerated depreciation and asset write-offs. Approximately $23.6 million of these expenses for the facility shutdowns and consolidations were included in the IMC business segment, $0.1 million in the Electrochem segment (2006) and $1.0 million was recorded in unallocated operating expenses (2006).

2007 & 2008 facility shutdowns and consolidations - In the first quarter of 2007, we announced that we will close our current Electrochem manufacturing facility in Canton, MA and construct a new 81,000 square foot replacement facility in Raynham, MA. This initiative is not cost savings driven but capacity driven for the Electrochem group.

In the second quarter of 2007, we announced that we will consolidate our corporate offices in Clarence, NY into our existing research and development center also in Clarence, NY after an expansion of that facility was complete. This expansion and relocation was completed in the third quarter of 2008.

During the second and third quarters of 2008, we reorganized and consolidated various general & administrative and research & development functions throughout the organization in order to optimize those resources with the businesses we acquired in 2007 and 2008.

In the second half of 2008, we ceased manufacturing at our facility in Suzhou, China, which was acquired from EAC, and closed our leased manufacturing facility in Orchard Park, NY, which was acquired from IntelliSensing. Additionally, we consolidated our Saignelegier, Switzerland manufacturing facility, which was acquired from Precimed. The operations of these facilities were relocated to existing facilities which have excess capacity. The facility in China is expected to be used as a procurement office in 2009.

In the fourth quarter of 2008, we approved a plan for the closure of our Teterboro, New Jersey (Electrochem manufacturing), Blaine, Minnesota (Vascular Access manufacturing) and Exton, Pennsylvania (Orthopedics corporate office) facilities. The operations at these facilities will be moved to other existing facilities with excess capacity.

The above initiatives are expected to be completed over the next twelve months. The total cost for these facility shutdowns and consolidations is expected to be approximately $13.5 million to $15.0 million of which $8.9 million has been incurred through January 2, 2009.

The major categories of costs include the following:

- Severance and retention - $4.3 million to $4.6 million;
- Production inefficiencies, moving and revalidation - $2.4 million to $2.7 million;
- Accelerated depreciation and asset write-offs - $4.1 million to $4.4 million;
- Personnel - $1.2 million to $1.5 million; and
- Other - $1.5 million to $1.8 million.

As a result of our consolidation initiatives, during 2008 two facilities were determined to be impaired. Accordingly, these facilities, which had a carrying amount of $5.1 million, were written down to their fair value of $3.4 million. This resulted in an impairment charge of $1.7 million, which was included in other operating expense.

All categories of costs are considered to be cash expenditures, except accelerated depreciation and asset write-offs. For 2008, costs of $5.0 million are included in the IMC business segment. For 2008 and 2007, costs of $3.3 million and $0.5 million, respectively, are included in the Electrochem business segment. The annual anticipated cost savings from these initiatives is estimated to be approximately $5 million to $6 million, and will not be fully realized until 2010.

Our Critical Accounting Estimates

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

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

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

Balance Sheet Caption / Nature of Critical Estimate Item	Assumptions / Approach Used	Effect of Variations of Key Assumptions Used
Valuation of goodwill, other identifiable intangible assets and IPR&D When we acquire a company, we allocate the purchase price to the assets we acquire and liabilities we assume based on their fair value at the date of acquisition. We then allocate the purchase price in excess of net tangible assets acquired to identifiable intangible assets, including IPR&D. Other indefinite lived intangible assets, such as trademarks and tradenames, are considered non-amortizing intangible assets as they are expected to generate cash flows indefinitely. Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Indefinite lived intangibles and goodwill are required to be assessed for impairment on an annual basis or more frequent if certain indicators are present. Definite-lived intangible assets are amortized over their estimated useful lives.	We base the fair value of identifiable tangible and intangible assets (including IPR&D) on detailed valuations that use information and assumptions provided by management. The fair values of the assets acquired and liabilities assumed are determined using one of three valuation approaches: market, income and cost. The selection of a particular method for a given asset depends on the reliability of available data and the nature of the asset, among other considerations. The market approach values the subject asset based on available market pricing for comparable assets. The income approach values the subject asset based on the present value of risk adjusted cash flows projected to be generated by the asset. The projected cash flows for each asset considers multiple factors, including current revenue from existing customers, attrition trends, reasonable contract renewal assumptions from the perspective of a marketplace participant, and expected profit margins giving consideration to historical and expected margins. The cost approach values the subject asset by determining the current cost of replacing that asset with another of equivalent economic utility. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the asset, less an allowance for loss in value due to depreciation or obsolescence, with specific consideration given to economic obsolescence if indicated. We perform an annual review on the last day of each fiscal year, or more frequently if indicators of potential impairment exist, to determine if the recorded goodwill and other indefinite lived intangible assets are	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. In arriving at the value of the IPR&D, we additionally consider among other factors: the in-process projects stage of completion; commercial feasibility of the project; the complexity of the work completed as of the acquisition date; the projected costs to complete; the expected introduction date and the estimated useful life of the technology. 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 determination of the expected future cash flows from our reporting units for our goodwill impairment testing. These include sales growth, cost of capital, and projections of future cash flows. Significant changes in these estimates and assumptions could create future impairment losses to our goodwill. For indefinite lived assets such as trademarks and tradenames, we make certain estimates of revenue streams, royalty rates and other future benefits. Significant changes in these estimates could create future impairments of these indefinite lived intangible assets. Estimation of the useful lives of definite-lived intangible assets requires significant management judgment. Events could occur that

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

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 definite-lived intangible assets.

A 1% change in the amortization of our intangible assets would increase/decrease current year net income by approximately $0.07 million, or approximately $0.003 per diluted share. As of January 2, 2009 we have $428.6 million of intangible assets recorded on our balance sheet representing 50% of total assets. This includes $90.3 million of amortizing intangible assets, $36.1 million of indefinite lived intangible assets and $302.2 million of goodwill.

Balance Sheet Caption / Nature of Critical Estimate Item	Assumptions / Approach Used	Effect of Variations of Key Assumptions Used
Stock-based compensation We record compensation costs related to our stock-based awards in accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123(R)"), and related Securities and Exchange Commission rules included in Staff Accounting Bulletin No. 107. Under the fair value recognition provisions of SFAS No. 123(R), 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-based awards is reassessed each period and recognized based upon the probability that the performance targets will be achieved. 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. The total expense recognized over the vesting period will only be for those awards that ultimately vest.	We utilize the Black-Scholes Options Pricing Model to determine the fair value of stock options under SFAS No. 123(R). 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. For restricted stock and restricted stock unit awards, the fair market value is determined based upon the closing value of our stock price on the grant date. Compensation cost for performance-based stock options and restricted stock units is reassessed each period and recognized based upon the probability that the performance targets will be achieved. That assessment is based upon our actual and expected future performance as well as that of the individuals who have been granted performance-based awards. Stock-based compensation expense is only recorded for those awards that	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 is 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 the application of SFAS No. 123(R) in future periods, the expense that we record for future

	are expected to vest. Forfeiture estimates for determining appropriate stock-based compensation expense are estimated at the time of grant based on historical experience and demographic characteristics. Revisions are made to those estimates in subsequent periods if actual forfeitures differ from estimated forfeitures.	grants may differ significantly from what we have recorded in the current period. Additionally, changes in performance of the Company or individuals who have been granted performance-based awards that affect the likelihood that performance based targets are achieved could materially impact the amount of stock-based compensation expense recognized. A 1% change in our stock based compensation expense would increase/decrease current year net income by approximately $0.04 million, or approximately $0.002 per diluted share.

Balance Sheet Caption / Nature of Critical Estimate Item	Assumptions / Approach Used	Effect of Variations of Key Assumptions Used
Inventories Inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.	Inventory standard costing requires complex calculations that include assumptions for overhead absorption, scrap, sample calculations, manufacturing yield estimates and the determination of which costs are capitalizable. The valuation of inventory requires us to estimate obsolete or excess inventory as well as inventory that is not of saleable quality.	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 reserves, which would have a negative impact on our net income. A 1% write-down of our inventory would decrease current year net income by approximately $0.7 million, or approximately $0.03 per diluted share. As of January 2, 2009 we have $112.3 million of inventory recorded on our balance sheet representing 13% of total assets.
Tangible long-lived assets Property, plant and equipment and other tangible long-lived assets are carried at cost. This cost is charged to depreciation or amortization expense over the estimated life of the operating assets primarily using straight-line rates. Long-lived assets are subject to impairment assessment.	We assess the impairment of tangible long-lived assets when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Factors that we consider in deciding when to perform an impairment review include significant under-performance of a business or product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in our use of the assets. Recoverability potential is measured by comparing the carrying amount of the asset group to the related total future undiscounted cash flows. The projected cash flows for each asset group considers multiple factors, including current revenue from existing customers, proceeds from the sale of the asset group, reasonable contract renewal assumptions from the perspective of a marketplace participant, and expected profit margins giving consideration to	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.

historical and expected margins. If an asset group's carrying value is not recoverable through related cash flows, the asset group is considered to be impaired. Impairment is measured by comparing the asset group's carrying amount to its fair value. When it is determined that useful lives of assets are shorter than originally estimated, and there are sufficient cash flows to support the carrying value of the asset group, we accelerate the rate of depreciation in order to fully depreciate the assets over their new shorter useful lives.	A 1% write-down in our tangible long-lived assets would decrease current year net income by approximately $1.2 million, or approximately $0.05 per diluted share. As of January 2, 2009 we have $182.8 million of tangible long-lived assets recorded on our balance sheet representing 22% of total assets.

Balance Sheet Caption / Nature of Critical Estimate Item	Assumptions / Approach Used	Effect of Variations of Key Assumptions Used
Provision for income taxes In accordance with the liability method of accounting for income taxes specified in SFAS No. 109, Accounting for Income Taxes, the provision for income taxes is the sum of income taxes both currently payable and deferred. The changes in deferred tax assets and liabilities are determined based upon the changes in differences between the bases of assets and liabilities for financial reporting purposes and the tax bases of assets and liabilities as measured by the enacted tax rates that management estimates will be in effect when the differences reverse. Beginning in 2007, we adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109("FIN No. 48"), to assess and record income tax uncertainties. FIN No. 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on various related matters such as derecognition, interest and penalties, and disclosure.	In relation to recording the provision for income taxes, management must estimate the future tax rates applicable to the reversal of temporary differences, make certain assumptions regarding whether book/tax differences are permanent or temporary and if temporary, the related timing of expected reversal. Also, estimates are made as to whether taxable operating income in future periods will be sufficient to fully recognize any gross deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. Alternatively, we may make estimates about the potential usage of deferred tax assets that decrease our valuation allowances. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. Significant judgment is required in evaluating our tax positions and determining our provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We establish reserves for uncertain tax positions when we believe that certain tax positions do not meet the more likely than not threshold. We adjust these reserves in light of changing facts and circumstances, such as the outcome of a tax audit or the lapse of the statute of limitations. The provision for income taxes includes the impact of reserve provisions and changes to the reserves that are considered appropriate. We follow FIN No. 48 for accounting for our uncertain tax	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 January 2, 2009, we had $23.1 million of deferred tax assets on our balance sheet and a valuation allowance of $4.5 million has been established for certain deferred tax assets as it is more likely than not that they will not be realized. A 1% increase in the effective tax rate would increase the current year provision by $0.3 million, reducing diluted earnings per share by $0.01 based on shares outstanding at January 2, 2009.

positions.

Our Financial Results

The commentary that follows should be read in conjunction with our consolidated financial statements and related notes. We utilize a fifty-two, fifty-three week fiscal year ending on the Friday nearest December 31st. Fiscal years 2008, 2007, and 2006 ended on January 2, 2009, December 28, and December 29, respectively. Fiscal year 2008 contained fifty-three weeks while fiscal years 2007 and 2006 contained fifty-two weeks.

Results of Operations Table

Dollars in thousands, except per share data	Year ended Jan. 2, 2009	Dec. 28, 2007	Dec. 29, 2006	2008-2007 $ Change	% Change	2007-2006 $ Change	% Change
IMC							
CRM/Neuromodulation	$ 278,279	$ 251,426	$ 227,407	$ 26,853	11%	$ 24,019	11%
Vascular Access	47,415	18,396	-	29,019	158%	18,396	NA
Orthopedics	142,446	-	-	142,446	NA	-	NA
Total IMC	468,140	269,822	227,407	198,318	73%	42,415	19%
Electrochem	78,504	48,924	43,735	29,580	60%	5,189	12%
Total sales	546,644	318,746	271,142	227,898	71%	47,604	18%
Cost of sales - excluding amortization of intangible assets	384,014	198,184	164,885	185,830	94%	33,299	20%
Cost of sales - amortization of intangible assets	6,841	4,537	3,813	2,304	51%	724	19%
Total cost of sales	390,855	202,721	168,698	188,134	93%	34,023	20%
Cost of sales as a % of sales	71.5%	63.6%	62.2%		7.9%		1.4%
Selling, general, and administrative expenses	72,633	44,674	38,785	27,959	63%	5,889	15%
SG&A as a % of sales	13.3%	14.0%	14.3%		-0.7%		-0.3%
Research, development and engineering costs, net	31,444	29,914	24,225	1,530	5%	5,689	23%
RD&E as a % of sales	5.8%	9.4%	8.9%		-3.6%		0.5%
Other operating expense	16,818	21,417	17,058	(4,599)	-21%	4,359	26%
Operating income	34,894	20,020	22,376	14,874	74%	(2,356)	-11%
Operating margin	6.4%	6.3%	8.3%		0.1%		-2.0%
Interest expense	13,168	7,303	4,605	5,865	80%	2,698	59%
Interest income	(711)	(7,050)	(5,775)	6,339	-90%	(1,275)	22%
Gain on sale of investment security	-	(4,001)	-	4,001	NA	(4,001)	NA
Gain on extinguishment of debt	(3,242)	(4,473)	-	1,231	-28%	(4,473)	NA
Other (income) expense, net	(1,624)	(447)	12	(1,177)	263%	(459)	NA
Provision for income taxes	8,744	13,638	7,408	(4,894)	-36%	6,230	84%
Effective tax rate	32.0%	47.5%	31.5%		-15.5%		16.0%
Net income	$ 18,559	$ 15,050	$ 16,126	$ 3,509	23%	$ (1,076)	-7%
Net margin	3.4%	4.7%	5.9%		-1.3%		-1.2%
Diluted earnings per share	$ 0.81	$ 0.67	$ 0.73	$ 0.14	21%	$ (0.06)	-8%

44

Fiscal 2008 Compared with Fiscal 2007

Sales

Sales were a record $546.6 million in 2008, an increase of 71% compared to 2007. This growth was achieved through acquisitions and organic growth of 7%. Our acquisitions, which expanded our product lines and diversified our customer base, contributed $208.2 million incremental revenue in 2008. Revenue for 2008 also included approximately $10 million of additional sales as a result of 2008 being a 53 week fiscal year versus 2007 which had 52 weeks.

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

Our 2008 revenue from our IMC business increased $198.3 million or 73% over 2007. Our acquisitions in 2007 and 2008 contributed $183.2 million to this increase. Included in our IMC segment is our CRM/Neuromodulation product line which saw year over year growth of $26.9 million, $11.8 million of which was attributable to our acquisitions in 2007. 2008 revenue from our IMC segment also includes sales from our Vascular Access and Orthopedic product lines which increased $29.0 million and $142.4 million, respectively over the prior year and were acquired near the end of 2007 and beginning of 2008. The additional week of sales added approximately $9 million to our IMC revenue in 2008. Additionally, Vascular Access revenue benefited from the timing of customer inventory stocking for introducers in the fourth quarter of 2008, which may impact first quarter of 2009 revenues. Orthopedic sales during the first three quarters of 2008 benefited from the release of excess backlog that was on hand at the time of the Precimed acquisitions, which has since been fulfilled.

The non-acquisition related increase in CRM/Neuromodulation revenue in 2008 was primarily due to higher feedthrough, and assembly revenue partially offset by lower ICD battery, coated components and ICD capacitor sales. The increase in feedthrough revenue can be attributed to market growth as well as the timing of customer product launches. The increase in assembly sales reflected an increase in price during 2008 due to contractual agreements related to material price increases. The decrease in ICD battery revenue is primarily due to customer vertical integration partially offset by increased adoption of our Q Series high rate ICD batteries. The decline in coated component sales is primarily the result of a customer changing product mix near the end of 2007 due to marketplace field actions. Revenues in 2007 included an increased level of capacitor sales due to a customer supply issue in the first half of 2007.

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

Electrochem sales grew $29.6 million or 60% in 2008 to $78.5 million. This included $25.0 million of incremental revenue from our acquisitions in 2007. On an organic basis Electrochem revenue increased 11%, which includes approximately $1 million of additional revenue as a result of 2008 being a 53 week fiscal year versus 2007 which had 52 weeks. The core growth in Electrochem sales primarily came from our energy markets. Oil and gas drilling activity was strong during 2008, but is expected to be more tempered in 2009 due to the economic slow down. Additionally, we continue to gain market share across our markets.

2009 Sales Outlook - We expect our full year 2009 sales will be in the range of $550 million to $600 million. This revenue projection assumes that we will continue to grow faster than our underlying market by leveraging our diversified revenue base and our strength in the development and manufacturing of custom technologies for our customers. These growth projections may be impacted by a variety of factors including a softening in the orthopedic and commercial energy markets, potential delays in elective surgeries, the current financial market unrest, changes in exchange rates and changes in the health care reimbursement policies. Within the IMD markets we serve, the orthopedics market represents the least predictable market due to the elective nature of many of the surgeries.

Cost of Sales

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

	2008-2007 % Increase
Impact of 2008 and 2007 acquisitions (a)	8.5%
Inventory step-up amortization (b)	1.5%
Mix change (c)	1.2%
Volume change (d)	-1.0%
Price change (e)	-0.8%
Impact of annualized consolidation savings (f)	-1.5%
Total percentage point change to cost of sales as a percentage of sales	7.9%

a. We completed seven acquisitions from the second quarter of 2007 to the first quarter of 2008. The acquired companies are currently operating with a higher cost of sales percentage than our legacy businesses due to less efficient operations and products/contracts that generally carry lower margins. We are currently in the process of applying our lean manufacturing processes to their operations and implementing plans for plant consolidation in order to lower cost of sales as percentage of sales (See “Cost Savings and Consolidation Efforts”). These initiatives, as well as increased sales volumes, are expected to help improve our cost of sales percentage over the next two years.

b. In connection with our acquisitions in 2008 and 2007, the value of inventory on hand was stepped-up to reflect the fair value at the time of acquisition. This stepped-up value is amortized to cost of sales – excluding intangible amortization as the inventory to which the adjustment relates is sold. The inventory step-up amortization was $6.4 million and $1.7 million for 2008 and 2007, respectively. As of January 2, 2009 there was no remaining inventory step-up to be amortized.

c. The revenue increase in 2008, excluding acquisitions, included a higher mix of low-rate medical batteries and assembly sales, which generally have lower margins. Additionally, revenue from coated components, ICD capacitors and high-rate medical batteries, which are generally higher margin products, were lower.
d. This decrease is primarily due to higher feedthrough production which absorbed a higher amount of fixed costs such as plant overhead and depreciation. In addition, higher overhead efficiencies were driven by greater inventory build for moves and replenishment of safety stock.
e. This decrease was primarily driven by contractual price increases for our high rate medical batteries and price increases contingent upon raw material costs.
f. This decrease was a result of a reduction in excess capacity in connection with our facility consolidations completed in 2008 (See “Cost Savings and Consolidation Efforts”).

We expect cost of sales as a percentage of sales to benefit in future years from our consolidation efforts and the elimination of excess capacity.

SG&A Expenses

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

	2008-2007 $ Increase
Headcount increases associated with acquisitions (a)	$ 18.9
Amortization (b)	2.8
Enpath legal expense (c)	4.0
Other (d)	2.3
Net increase in SG&A	$ 28.0

a. Personnel acquired in functional areas such as Finance, Human Resources and Information Technology were the primary drivers of this increase. The remaining increase was for consulting, travel and other administrative expenses to operate those areas.
b. In connection with our acquisitions in 2008 and 2007, the value of customer relationships and non-compete agreements were recorded at fair value at the time of acquisition. These intangible assets are amortized to SG&A over their estimated useful lives.
c. Amount represents increased costs incurred in connection with a patent infringement action which went to trial in 2008 – see “Litigation.”
d. Increase is primarily a result of 2008 being a 53 week fiscal year versus 2007 which had 52 weeks, including additional payroll taxes that resulted from fiscal year 2008 ending in 2009.

SG&A expenses as a percentage of sales are expected to decline in the near term as synergies from our acquisitions are realized.

RD&E Expenses

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

	Year ended	
	January 2, 2009	December 28, 2007
Research and development costs	$ 18.8	$ 16.1
Engineering costs	22.4	18.9
Less cost reimbursements	(9.8)	(5.1)
Engineering costs, net	12.6	13.8
Total RD&E	$ 31.4	$ 29.9

The increase in RD&E expenses for 2008 was primarily due to our acquisitions in 2007 and 2008 which added $5.3 million of incremental research and development costs, $4.1 million of incremental engineering costs and $2.7 million of incremental cost reimbursements. These increases were offset by our efforts to streamline these functions in 2008 to better align resources as well as the timing of cost reimbursements. RD&E expenses are expected to increase in 2009, reflecting our continued development of and investment in core product technologies.

Other Operating Expenses

Acquired In-Process Research and Development - Approximately $2.2 million and $16.1 million of the purchase price related to the 2008 and 2007 acquisitions, respectively, was allocated to IPR&D projects acquired. These projects had not yet reached technological feasibility and had no alternative future use as of the acquisition date, thus were immediately expensed on the date of acquisition. Additional information regarding these projects is set forth in Note 2 – “Acquisitions” of the Notes to the Consolidated Financial Statements contained in Item 8 of this report and “Product Development” section of this Item.

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

	Year ended	
	January 2, 2009	December 28, 2007
(a) 2005 & 2006 facility shutdowns and consolidations	$ 0.7	$ 4.7
(a) 2007 & 2008 facility shutdowns and consolidations	8.3	0.5
(b) Integration costs	5.4	-
(c) Asset dispositions and other	0.2	0.1
	$ 14.6	$ 5.3

a. Refer to the “Cost Savings and Consolidation Efforts” section of this Item for disclosures related to the timing and level of remaining expenditures for these items as of January 2, 2009.
b. For 2008, 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 are primarily for consultants, relocation and travel costs that will not be required after the integrations are completed.
c. During 2008 and 2007, we had various asset disposals which were partially offset by insurance proceeds received on previously disposed assets.

In 2009 consolidation and integration expenses are expected to be approximately $10 million to $13 million.

Interest Expense and Interest Income

Interest expense for 2008 is $5.9 million higher than 2007 primarily due to the additional $80 million of 2.25% convertible notes issued at the beginning of 2007 as well as the additional interest expense associated with line of credit draws used to fund our acquisitions and debt extinguishment in 2008. See Note 8 – "Debt" of the Notes to the Consolidated Financial Statements in this Form 10-K for additional information about our long-term debt obligations.

We expect non-cash interest expense to increase materially in 2009 as a result of the changes in accounting for convertible debt effective in 2009. See "Impact of Recently Issued Accounting Standards" section of this Item for a further description of these changes. Cash interest costs for 2009 should remain relatively consistent with 2008 as we have fixed a significant portion of our interest costs utilizing interest rate swaps.

Interest income for 2008 decreased by $6.3 million in comparison to the prior year primarily due to the cash deployed in connection with our acquisitions in 2007 and 2008. We expect interest income to remain comparable to the current year level for the foreseeable future.

Gain on sale of investment security

In the second quarter of 2007, we sold an investment security which resulted in a pre-tax gain of $4.0 million.

Gain on extinguishment of debt

In December 2008 we entered into privately negotiated agreements under which we repurchased $21.8 million in aggregate principal amount of our original $170.0 million of 2.25% convertible subordinated notes due 2013 ("CSN I") at $845.38 per $1,000 of principal. The primary purpose of this transaction was to retire the debentures, which contained a put option exercisable on June 15, 2010, at a discount. This transaction was funded with availability under our existing line of credit. This transaction was accounted for as an extinguishment of debt and resulted in a pre-tax gain of $3.2 million.

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

Other (income) expense, net

In December 2007, we entered into a forward contract to purchase 80,000,000 Swiss Francs ("CHF"), at an exchange rate of 1.1389 CHF per one U.S. dollar, in order to partially fund our acquisition of Precimed, which closed in January 2008 and was payable in Swiss Francs. In January 2008, we entered into an additional forward contract to purchase 20,000,000 CHF at an exchange rate of 1.1156 per one U.S. dollar. We entered into a similar foreign exchange contract in January 2008 in order to fund our acquisition of the Chaumont Facility, which closed in February 2008 and was payable in Euros. The net result of the above transactions was a gain of $2.4 million, $1.6 million of which was recorded in 2008 and $0.8 million in 2007.

Provision for Income Taxes

Our effective tax rate for fiscal year 2008 of 32.0% is lower than the U.S. statutory rate primarily as a result of the Swiss Tax Holiday tax benefit, offset in part by the IPR&D charge from the acquisition of Precimed, which was not deductible for income tax purposes. Our effective tax rate for fiscal year 2007 of 47.5% was higher than the U.S. statutory rate primarily as a result of the IPR&D charge from the acquisition of Enpath, which was not deductible for income tax purposes. We expect our effective tax rate in 2009 to be more in line with the 35% U.S. statutory rate.

Fiscal 2007 Compared with Fiscal 2006

Sales

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

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

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

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

Cost of Sales

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

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

a. This increase was primarily due to contractual price concessions negotiated with our larger customers. Price reductions were negotiated in exchange for longer term commitments, primarily in the IMC segment.
b. In connection with our acquisitions, the value of inventory on hand was stepped-up to reflect the fair value at the time of acquisition. The inventory step-up amortization, which is recorded as cost of sales – excluding intangible amortization, was $1.7 million.
c. The Columbia Facility was operating with excess capacity during 2007 as its production transitioned to our Tijuana, Mexico Facility. The excess capacity cost is approximately $1.2 million. In accordance with our inventory accounting policy, excess capacity costs are expensed.

SG&A Expenses

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

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

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

RD&E Expenses

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

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

The increase in RD&E expenses for 2007 was primarily due to a planned headcount increase in engineering personnel as we continue to invest substantial resources in product technologies. Additionally, $1.9 million of research and development costs, $4.9 million of engineering costs and $2.6 million of cost reimbursements were a result of the acquisitions in 2007. Reimbursement on product development projects increased compared to last year primarily due to the timing of the achievement of milestones, as well as the Enpath and BIOMEC acquisitions, which added $2.6 million of cost reimbursements.

Other Operating Expenses

Acquired In-Process Research and Development - Approximately $2.3 million and $13.8 million of the BIOMEC and Enpath purchase prices, respectively, represent the estimated fair value of IPR&D projects acquired from those companies. These projects had not yet reached technological feasibility and had no alternative future use as of the acquisition date, thus were immediately expensed on the date of acquisition.

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

	Year Ended	
	December 28, 2007	December 29, 2006
(a) 2005 & 2006 facility shutdowns and consolidations	$ 4.7	$ 11.0
(a) 2007 & 2008 facility shutdowns and consolidations	0.5	-
(b) Asset dispositions and other	0.1	6.1
	$ 5.3	$ 17.1

a. Refer to “Cost Savings and Consolidation Efforts” section of this Item for additional disclosures.

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

Interest Expense and Interest Income

Interest expense for 2007 is higher than the prior year period primarily due to the additional $80 million of 2.25% convertible notes issued at the end of the first quarter of 2007 and additional amortization of deferred fees and discounts associated with these notes and the notes exchanged at that time. See Note 8 – “Debt” of the Notes to the Consolidated Financial Statements in this Form 10-K for additional information about our long-term debt obligations. Interest income for 2007 increased in comparison to 2006 primarily due to increased cash, cash equivalents and short-term investment balances, as well as higher rates earned.

Gain on sale of investment security

In the second quarter of 2007, we sold an investment security which resulted in a pre-tax gain of $4.0 million.

Gain on extinguishment of debt

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

Other (income) expense, net

In December 2007, we entered into a forward contract to purchase 80,000,000 CHF, at an exchange rate of 1.1389 CHF per one U.S. dollar, in order to partially fund our acquisition of Precimed, which closed in January 2008 and was payable in Swiss Francs. The net result of the above transaction was a gain of $0.8 million which was recorded in 2007 as Other Income (Expense), Net.

Provision for Income Taxes

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

Liquidity and Capital Resources

	As of	
(Dollars in millions)	January 2, 2009	December 28, 2007
Cash and cash equivalents and short-term investments (a)(b)	$ 22.1	$ 40.5
Working capital(b)	$ 142.2	$ 116.8
Current ratio(b)	2.5:1.0	2.8:1.0

a. We did not hold any short-term investments as of January 2, 2009. Short-term investments in 2007 consisted of municipal, U.S. Government Agency and corporate notes and bonds acquired with maturities that exceed three months.

b. Cash and cash equivalents and short-term investments decreased primarily due to the cash used to acquire Precimed and the Chaumont Facility and capital expenditures which were funded by $79.9 million of net cash received from borrowings and $57.1 million of cash flow generated from operations. Our increase in working capital was primarily due to the growth of the Company. As a percentage of assets, working capital remained consistent with the prior year at approximately 17%. Our current ratio remained relatively consistent with 2007 year-end amounts. We expect cash generated from operations to be sufficient to fund our consolidation and integration initiatives, future capital expenditures, contractual obligations and debt service payments.

Revolving line of credit - We have a senior credit facility (the "Credit Facility") consisting of a $235 million revolving line of credit, which can be increased to $335 million upon our request. The Credit Facility also contains a $15 million letter of credit subfacility and a $15 million swingline subfacility. The Credit Facility is secured by our non-realty assets including cash, accounts and notes receivable, and inventories, and has an expiration date of May 22, 2012 with a one-time option to extend to April 1, 2013 if no default has occurred. Interest rates under the Credit Facility are, at our option, based upon the current prime rate or the LIBOR rate plus a margin that varies with our leverage ratio. If interest is paid based upon the prime rate, the applicable margin is between minus 1.25% and 0.00%. If interest is paid based upon the LIBOR rate, the applicable margin is between 1.00% and 2.00%. We are required to pay a commitment fee between 0.125% and 0.250% per annum on the unused portion of the Credit Facility based on our leverage ratio.

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

The Credit Facility also requires us to maintain a ratio of adjusted EBITDA, as defined in the credit agreement, to interest expense of at least 3.00 to 1.00, and a total leverage ratio, as defined in the credit agreement, of not greater than 5.00 to 1.00 from May 22, 2007 through September 29, 2009 and not greater than 4.50 to 1.00 from September 30, 2009 and thereafter. As of January 2, 2009, we are in compliance with the required covenants.

The 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 Credit Facility immediately due and payable.

In connection with our acquisition of Precimed and the Chaumont Facility, we borrowed $117 million under this revolving line of credit in 2008. We borrowed an additional net $15.0 million under the revolving line of credit since that time in order to fund the repurchase of convertible subordinated notes. The weighted average interest rate on these borrowings as of January 2, 2009, which does not include the impact of our interest rate swaps, was 3.8%. Interest rates reset based upon the six-month ($105 million), three-month ($8 million), two-month ($13 million) and one-month ($6 million) LIBOR rate. Based upon current capital needs, we do not anticipate making significant principal payments on the revolving line of credit within the next twelve months. As of January 2, 2009, we had $103 million available under our revolving line of credit.

Extinguishment of Debt - In December 2008 we entered into privately negotiated agreements under which we repurchased $21.8 million in aggregate principal amount of our 2.25% convertible subordinated notes due 2013 at $845.38 per $1,000 of principal. The primary purpose of this transaction was to retire the debentures, which contained a put option exercisable on June 15, 2010, at a discount. This transaction was funded with availability under our existing line of credit. This transaction was accounted for as an extinguishment of debt and resulted in a pre-tax gain of $3.2 million.

As of January 2, 2009 we have outstanding $30.5 million of 2.25% convertible subordinated notes due 2013, which contain a put option exercisable on June 15, 2010. We believe that our cash flow from operations, as well as availability under our existing line of credit will be sufficient to fund the repayment of these notes if put to us. The remaining $197.8 million of convertible subordinated notes are not due until 2013 and do not have a put option.

Operating Activities - Net cash flows from operating activities for 2008 increased $14.1 million over 2007. This increase was primarily driven by higher net income excluding non-cash items (consisting of depreciation, amortization, stock-based compensation, non-cash gains/losses) of $20.4 million. This increase was partially offset by cash flow used by our operating accounts, primarily inventory, due to the timing of inventory purchases and inventory safety stock build-up. The extinguishment of debt in 2008 resulted in a reclassification of approximately $3.2 million of current income tax liability, which will be paid in 2009. This amount was previously recorded as a non-current deferred tax liability on the balance sheet. The remaining variances can be attributed to the timing of cash receipts and payments, including those related to the companies acquired in 2007 and 2008.

We anticipate that cash flow from operations will be sufficient to meet our operating, capital expenditure and debt service needs, other than for acquisitions. Included in accounts receivable as of January 2, 2009 is an $11.6 million value added tax receivable with the French government related to inventory purchases for the Chaumont Facility. We have made claims with the proper French authorities and fully expect to collect this amount in the first half of 2009, however collection is not guaranteed.

Investing Activities - Net cash used in investing activities was $148.7 million for 2008. This was primarily the result of the acquisition of Precimed and the Chaumont Facility in 2008. The increase in property, plant and equipment purchases over 2007 of $24.2 million primarily relates to the construction of our new Electrochem manufacturing facility in Raynham, MA and the expansion of our corporate offices in 2008.

Our current expectation for 2009 is that capital spending will be in the range of $30.0 million to $40.0 million of which approximately half are discretionary in nature. These purchases relate to routine investments to support our internal growth and to maintain our technology leadership. We anticipate cash flow from operations will be sufficient to fund these capital expenditures.

We regularly engage in discussions relating to potential acquisitions. We continually assess our financing facilities and capital structure to ensure liquidity and capital levels are sufficient to meet our strategic objectives. Going forward, we will continue to pursue strategically targeted and opportunistic acquisitions.

Financing Activities - Cash flow provided by financing activities for 2008 primarily related to $117.0 million of borrowings on our revolving line of credit taken in connection with the acquisition of Precimed and the Chaumont Facility and an additional net $15.0 million of borrowings under our revolving line of credit in order to fund our repurchase of $22 million par value of our convertible subordinated notes. We repaid $33.6 million of the debt assumed from Precimed during 2008. In 2007, we repaid $7.1 million of debt assumed from Enpath. During 2007, we received net proceeds of $76.0 million in connection with our issuance of 2.25% convertible subordinated notes and paid $6.6 million of financing fees related to that transaction and the new revolving credit agreement discussed above.

Capital Structure - At January 2, 2009, our capital structure consisted of $220.9 million of convertible subordinated notes, $132.0 million of debt under our revolving line of credit and 22.9 million shares of common stock outstanding. Additionally, we have $22.1 million in cash and cash equivalents which is sufficient to meet our short-term operating cash needs. If necessary, we have access to $103 million under our available line of credit 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.

Off-Balance Sheet Arrangements

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

Litigation

We are a party to various legal actions arising in the normal course of business. While we do not believe that the ultimate resolution of any such pending activities will have a material adverse effect on our consolidated results of operations, financial position, or cash flows, litigation is subject to inherent uncertainties. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact in the period in which the ruling occurs.

As previously reported, on June 12, 2006, Enpath was named as defendant in a patent infringement action filed by Pressure Products Medical Supplies, Inc. (“Pressure Products”) in which Pressure Products alleged that Enpath’s FlowGuard™ valved introducer, which has been on the market for more than three years, and Enpath’s ViaSeal™ prototype introducer, which has not been sold, infringes claims in Pressure Products patents. After trial, a jury found that Enpath infringed the Pressure Products patents, but not willfully, and awarded damages in the amount of $1.1 million. Enpath has appealed the final judgment to the U.S. Court of Appeals for the Federal Circuit. As a result of a post-trial motion and pending the appeal, Enpath is permitted to continue to sell FlowGuard™ provided that Enpath pays into an escrow fund a royalty of between $1.50 and $2.25 for each sale of a FlowGuard™ valved introducer. The amount accrued as escrow during 2008 was $0.5 million. During 2008, we incurred $4.5 million of costs related to this litigation.

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

Contractual Obligations

The following table summarizes our significant contractual obligations at January 2, 2009:

		Payments due by period			
CONTRACTUAL OBLIGATIONS	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt Obligations (a)	$ 397,972	$ 10,019	$ 49,461	$ 338,492	$ -
Operating Lease Obligations (b)	11,068	2,910	3,370	2,803	1,985
Purchase Obligations (c)	18,062	18,062	-	-	-
Pension Obligations (d)	9,852	703	1,590	2,010	5,549
Total	$ 436,954	$ 31,694	$ 54,421	$ 343,305	$ 7,534

a. Includes the annual interest expense on our convertible debentures of 2.25%, which is paid semi-annually. These amounts assume the June 2010 put option is exercised on the $30.5 million of 2.25% convertible subordinated notes outstanding issued in May 2003. Also includes the expected interest expense on the $132 million outstanding on our line of credit based upon the period end weighted average interest rate of 3.7%, which includes the impact of our interest rate swaps outstanding. See Note 8 – "Debt" of the Notes to the Consolidated Financial Statements in this Form 10-K for additional information about our long-term debt obligations.
b. See Note 13 – "Commitments and Contingencies" of the Notes to the Consolidated Financial Statements in this Form 10-K for additional information about our operating lease obligations.
c. For the purposes of this table, contractual obligations for purchases of goods or services are defined as agreements that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Our purchase orders are normally based on our current manufacturing needs and are fulfilled by our vendors within short time horizons. We enter into blanket orders with vendors that have preferred pricing and terms, however these orders are normally cancelable by us without penalty.
d. See Note 9 – "Employee Benefit Plans" of the Notes to the Consolidated Financial Statements in this Form 10-K for additional information about our pension plan obligations. These amounts do not include any potential future contributions to our pension plan that may be necessary if the rate of return earned on pension plan assets is not sufficient to fund the rate of increase of our pension liability. Future cash contributions may be required. As of January 2, 2009 our actuarially determined pension liability exceeded the plans assets by $6.0 million.

This table does not include the forward contract entered into in February 2009 to purchase 10 million Mexican pesos per month from March 2009 to December 2009 at an exchange rate of 14.85 pesos per one U.S. dollar. This contract was entered into in order to hedge the risk of peso denominated payments associated with the operations at our Tijuana, Mexico facility. This contract will be accounted for as a cash flow hedge.

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 June 2008, the Emerging Issues Task Force ("EITF") issued EITF 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock. This Issue prescribes a two step process for determining whether an instrument (or an embedded feature), such as our convertible subordinated notes, is indexed to our stock as follows: Step 1: if the instrument is not based on (a) an observable market, other than the market for our stock, or (b) an observable index, other than an index calculated or measured solely by reference to our own operations then the instrument is considered indexed to our own stock. Step 2: if the instrument settlement amount is fixed then the instrument is considered indexed to our own stock. If we determine that our convertible subordinated notes are not indexed to our own stock, they would not meet the scope exception in paragraph 11(a) of SFAS No. 133 and thus would be accounted for under SFAS No. 133. We are still evaluating the impact of EITF 07-5 on our consolidated financial statements, which is effective beginning in fiscal year 2009.

In June 2008, the FASB issued Staff Position ("FSP") EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." This FSP concluded that all outstanding unvested share-based payment awards (restricted stock) that contain rights to nonforfeitable dividends are considered participating securities. Accordingly, the two-class method of computing basic and diluted EPS is required for these securities. FSP 03-6-1, which was effective beginning in fiscal year 2009, did not have a material impact on our consolidated financial statements and will be applied retrospectively to all periods presented in future financial statements.

In May 2008, the FASB issued FSP APB 14-1, "Accounting for Convertible Debt Instruments that May be Settled in Cash Upon Conversion (Including Partial Cash Settlement)." This FSP requires issuers of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) separately account 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. This statement is effective beginning in fiscal year 2009 and will be applied retrospectively to all periods presented in future financial statements. This FSP is only applicable prospectively if we determine that our convertible subordinated notes are indexed to our own stock under the guidance of EITF 07-5. We estimate that this FSP, if applicable, will increase 2009 non-cash interest expense by approximately $7 million to $8 million and reduce 2009 diluted EPS by approximately $0.19 per share to $0.22 per share.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities. SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, and requires entities to provide enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair values and amounts of gains and losses on derivative contracts, and disclosures about credit-risk-related contingent features in derivative agreements. We will make the required disclosures beginning in 2009.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. This Statement replaces FASB Statement No. 141, Business Combinations but retains the guidance in SFAS No. 141 for identifying and recognizing intangible assets separately from goodwill. However, SFAS No. 141(R) significantly changed the accounting for business combinations with regards to the number of assets and liabilities assumed that are to be measured at fair value, the accounting for contingent consideration and acquired contingencies as well as the accounting for direct acquisition costs and IPR&D. SFAS No. 141(R) is effective for acquisitions consummated beginning in fiscal year 2009 and will materially impact our consolidated financial statements if we consummate an acquisition after the date of adoption. SFAS No. 141(R) provides that any changes to an entity's acquired uncertain tax positions and valuation allowances associated with acquired deferred tax assets will no longer be applied to goodwill, regardless of the acquisition date of the associated business combination. As such, any changes to the acquired uncertain tax positions and valuation allowances will be recognized as an adjustment to income tax expense.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51. This Statement amends Accounting Research Bulletin No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 did not have a material impact on our consolidated financial statements, which was effective beginning in fiscal year 2009.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value while applying U.S. GAAP, and expands disclosures about fair value measurements. SFAS No. 157 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions based on market data obtained from independent sources and (2) the reporting entity's own assumptions developed based on unobservable inputs. In February 2008, the FASB issued FSP FAS 157-b—Effective Date of FASB Statement No. 157. This FSP (1) partially deferred the effective date of SFAS No. 157 for one year for certain nonfinancial assets and nonfinancial liabilities and (2) removed certain leasing transactions from the scope of SFAS No. 157. Effective in fiscal year 2008, we adopted the provisions of SFAS No. 157 for all financial assets and financial liabilities and nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value on a recurring basis. The provisions of SFAS No. 157 that were effective in 2009, did not materially impact our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency

With our acquisition of Precimed and the Chaumont Facility, we significantly increased our exposure to foreign currency exchange rate fluctuations due to transactions denominated in Swiss Francs and Euros. We continually evaluate our exposure to foreign currency risk and develop hedging strategy's to best mitigate these risks, which include the use of various derivative instruments. We believe that a hypothetical 10% change in the value of the U.S. dollar in relation to our most significant foreign currency exposures would not have a material impact on our net earnings as the impact of foreign currency rates on revenue is almost entirely offset by the inverse impact on our cost of sales and operating expenses.

In December 2007, we entered into a forward contract to purchase 80,000,000 CHF, at an exchange rate of 1.1389 CHF per one U.S. dollar, in order to partially fund the acquisition of Precimed, which closed in January 2008 and was payable in Swiss Francs. In January 2008, we entered into an additional forward contract to purchase 20,000,000 CHF at an exchange rate of 1.1156 per one U.S. dollar. We entered into a similar foreign exchange contract in January 2008 in order to fund the acquisition of the Chaumont Facility, which closed in February 2008 and was payable in Euros. The net result of the above transactions was a gain of $2.4 million, $1.6 million of which was recorded in 2008 as other (income) expense, net.

In February 2009, we entered into a forward contract to purchase 10 million Mexican pesos per month from March 2009 to December 2009 at an exchange rate of 14.85 pesos per one U.S. dollar. This contract was entered into in order to hedge the risk of peso denominated payments associated with the operations at our Tijuana, Mexico facility. This contract will be accounted for as a cash flow hedge.

We translate all assets and liabilities of our foreign operations of Precimed and the Chaumont Facility acquired in 2008 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 aggregate translation adjustment for 2008 was a loss of $0.2 million. 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 amounted to a gain of $0.1 million for 2008. A hypothetical 10% change in the value of the U.S. Dollar in relation to our most significant foreign currency subsidiary (P Medical Holding SA - Swiss Francs) would have had an impact of approximately $10 million on these foreign net assets as of January 2, 2009.

Included in accounts receivable as of January 2, 2009 is an $11.6 million value added tax receivable with the French government related to inventory purchases for the Chaumont Facility. We have made claims with the proper French authorities and fully expect to collect this amount in the first half of 2009, however collection is not guaranteed. This receivable is denominated in Euros and is subject to foreign currency risk, which could be material.

Interest Rate Swaps

As of January 2, 2009, we had $132 million outstanding on our revolving line of credit. Interest rates reset on this debt based upon the six-month ($105 million), three-month ($8 million), two-month ($13 million) and one-month ($6 million) LIBOR rate, thus subjecting us to interest rate risk. During 2008, we entered into three receive floating-pay fixed interest rate swaps indexed to the six-month LIBOR rate. The objective of these swaps is to hedge against potential changes in cash flows on our outstanding revolving line of credit. No credit risk was hedged. The receive variable leg of the swaps and the variable rate paid on the revolving line of credit bear the same rate of interest, excluding the credit spread, and reset and pay interest on the same dates.

Information regarding our outstanding interest rate swaps is as follow:

Instrument	Type of hedge	Notional amount (in thousands)	Start date	End date	Pay fixed rate	Current receive floating rate	Fair value January 2, 2009 (in thousands)
Interest rate swap	Cash flow	$ 80,000	3/5/2008	7/7/2010	3.09%	3.14%	$ (1,484)
Interest rate swap	Cash flow	18,000	12/18/2008	12/18/2010	2.00%	2.17%	-
Interest rate swap	Cash flow	50,000	7/7/2010	7/7/2011	2.16%	6M LIBOR	90
		$ 148,000			2.64%		