

# WILSON GREATBATCH TECHNOLOGIES INC

## FORM 10-K (Annual Report)

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U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For The Fiscal Year Ended December 29, 2000

Commission File Number 1-16137

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

Delaware  
(State of incorporation)

16-1531026  
(I.R.S. employer identification no.)

10,000 Wehrle Drive  
Clarence, New York  
14031  
(Address of principal executive offices)

(716) 759-6901  
(Registrant's telephone number, including area code)

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

Title of Each Class:  
Common Stock, Par Value \$.001 Per Share

Name of Each Exchange on Which Registered:  
New York Stock Exchange

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

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

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.

Aggregate market value of voting stock of Wilson Greatbatch Technologies, Inc. held by nonaffiliates as of March 26, 2001, based on the closing price of \$19.35, as reported on the New York Stock Exchange: \$148.2 million.

Shares of common stock outstanding on March 26, 2001: 18,712,967

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the company's definitive Proxy Statement for its 2001 Annual Meeting of Stockholders are incorporated by reference into Part III.

PART I

ITEM 1. BUSINESS

## OVERVIEW

We are a leading developer and manufacturer of power sources, feedthroughs and wet tantalum capacitors used in implantable medical devices. We also develop and manufacture other components used in implantable medical devices, and we believe that we are a preferred supplier of power sources and components. We offer technologically advanced, highly reliable and long lasting products for implantable medical devices and enable our customers to introduce implantable medical devices that are progressively smaller, longer lasting, more efficient and more functional. We leverage our core competencies in technology and manufacturing to develop and produce power sources for commercial applications that demand high performance and reliability, including aerospace, oil and gas exploration and oceanographic equipment. Our customers utilize our specially designed proprietary power sources and components in their products. We believe that our proprietary technology, close customer relationships, market leadership and dedication to quality provide us with significant competitive advantages over our competitors and create a barrier to entry for potential market entrants.

Mr. Wilson Greatbatch patented the implantable pacemaker in 1962. In 1970, Mr. Greatbatch founded Wilson Greatbatch Ltd., our predecessor. In July 1997, DLJ Merchant Banking led a leveraged buyout of Wilson Greatbatch Ltd. Our company was incorporated in connection with the 1997 leveraged buyout to acquire Wilson Greatbatch Ltd., which is now our wholly-owned subsidiary. We acquired Hittman Materials and Medical Components, Inc., now Greatbatch-Hittman, Inc., in August 1998 to expand and complement our product lines. Hittman, a medical components manufacturer, produces feedthroughs and electrode components for implantable medical devices. Feedthroughs are among the most critical components used in implantable medical devices and both feedthroughs and electrodes are key component technologies.

In August 1998, we also sold the assets of our Greatbatch Scientific product line to focus on the newly-acquired Hittman product lines. Greatbatch Scientific was formed in 1996 to develop, manufacture and sell a line of battery-powered, magnetic resonance imaging, or MRI, compatible surgical instruments. In 1998, we concluded that this product line and customer base was not essential to our core operations and that instead we wanted to concentrate our efforts on integrating Hittman and completing the development of our wet tantalum capacitor program. We sold the assets of Greatbatch Scientific to an unrelated medical device company in exchange for approximately 12% of that company's stock in an investment valued at \$2.4 million. This ended our expenditures on Greatbatch Scientific, which in 1998 were \$1.3 million. In 1999 we wrote down our investment in this company by \$0.9 million.

In August 2000, we acquired all of the capital stock of Battery Engineering, Inc., or BEI, a small specialty battery manufacturer, from Hitachi-Maxell, Ltd. in exchange for 339,856 shares of our common stock and assumption of approximately \$2.7 million of indebtedness. The acquisition was accounted for as a purchase. BEI had approximately 90 full time employees and is part of our commercial power source operations. In a separate transaction, Hitachi-Maxell also purchased 200,000 shares of our common stock for \$15.00 per share.

In October 2000, we completed our initial public offering. We sold 5,750,000 shares of common stock at a price of \$16.00 per share and received net proceeds of \$84.0 million. All net proceeds were used to prepay a portion of our senior debt.

## IMPLANTABLE MEDICAL DEVICE INDUSTRY

### OVERVIEW

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

DEVICE	PRINCIPAL ILLNESS OR SYMPTOM
-----	-----
Pacemakers	Abnormally slow heartbeat
Implantable Cardiac Defibrillators (ICDs)	Rapid and irregular heartbeat
Left ventricular assist devices	Heart failure
Hearing assist devices	Hearing loss
Neurostimulators	Tremors or chronic pain
Drug pumps	Diabetes or chronic pain

The implantable medical device industry is expected to grow primarily as a result of:

- advances in medical technology that will allow physicians to use implantable medical devices as a substitute for, or in conjunction with, prescription drugs, to treat a wider range of heart diseases, such as atrial fibrillation and congestive heart failure;
- increased use of recently developed implantable medical devices, including left ventricular assist devices, hearing assist devices, neurostimulators and drug pumps;
- expansion of indications, or uses, for implantable medical devices;

- the aging population, which is expected to require an increasing number of pacemakers, ICDs and other implantable medical devices;
- a combination of smaller, lighter, more efficient and more functional devices and longer-lasting power sources which will be easier for physicians to implant and will be less intrusive to recipients; and
- increased market penetration beyond the United States and other developed countries.

Medical Data International has predicted that ICD revenues will grow faster than pacemaker revenues through 2004. The faster growth predicted for the ICD market is predicated on anticipated new applications for, and greater acceptance of, ICDs and an increased penetration of the potential patient base.

## PRODUCTS

We design and manufacture a variety of power sources, capacitors and components, such as feedthroughs and electrodes for implantable medical devices. Our technology is also used in a number of demanding commercial applications, including aerospace, oil and gas exploration and oceanographic equipment.

### IMPLANTABLE POWER SOURCES

The power sources we produce are batteries. A battery is an electrochemical device that stores energy and releases it in the form of electricity. To generate an electrical current, electrons are first released from one part of the battery, called the anode or negative electrode. This flow of electrons, known as a current, travels to a load or device outside the battery. After powering the device, the electron flow reenters another part of the battery, called the cathode or positive electrode. As electrons flow from the anode to the device being powered by the battery, ions released from the anode cross through an electrolyte, which consists of one or more chemical compounds that facilitate the flow of ions to the cathode. The ions react with the cathode in order to complete the circuit. Separators are typically used inside the battery as electrical insulators to divide the anode and the cathode to prevent mechanical contact between them, which would result in the rapid depletion of the battery cell.

From the late 1950s to the early 1970s, implantable medical devices, such as pacemakers, were powered by zinc/mercuric oxide batteries. These batteries typically lasted two to three years, often failed without warning, were large and bulky and generated hydrogen gas, making it impossible to seal the battery. In the early 1970s, we introduced lithium/iodine batteries as power sources for pacemakers. Lithium/iodine batteries manufactured by us and manufactured by others under license from us are now a principal power source for pacemakers. Pacemaker batteries utilizing our technology last approximately six years and provide high reliability and predictability. In the mid 1980s, we introduced lithium/silver vanadium oxide batteries for powering ICDs. These batteries provide the higher power levels required by an ICD with a high degree of reliability and consistency. Our lithium/silver vanadium oxide batteries have become a principal power source of ICDs.

In 1996, we introduced a lighter weight titanium-encased lithium/carbon monofluoride battery as a next generation pacemaker battery. These batteries offer improved pacemaker performance in several areas, including:

- pacemaker weight reduction of up to 25%;
- improved electrical performance, which is more suitable for use with the latest pacemaker microelectronics; and
- 10-15% longer battery life than comparable products.

In 1996, we introduced a new process for cathode manufacturing that enabled the production of significantly thinner cathodes than previously possible. As a result of this new cathode manufacturing process and other design improvements, our newest generation of ICD batteries is the thinnest commercially available and is up to 50% thinner than many existing models. Over the past few years, the decrease in battery size has contributed significantly to decreases in the size of ICDs, making these devices easier to implant.

### CAPACITORS

Capacitors, which are used in ICDs, perform the critical function of storing electrical pulses before delivery to the heart. An ICD typically has two capacitors. Historically, ICDs utilized aluminum-based capacitors. In the fourth quarter of 1999, we introduced wet tantalum hybrid capacitors commercially for use in ICDs, which provide a number of advantages over aluminum-based capacitors. Our wet tantalum hybrid capacitors, which combine liquid electrolytes and ruthenium oxide cathode material with a tantalum anode component, provide a unique combination of high voltage and high energy storage capacity. This combination enables energy density not achievable with competing technologies. Our capacitors can be manufactured in many sizes and shapes to meet the specific needs of our customers.

To produce our capacitors, we have licensed a key patent for wet tantalum technology from the Evans Capacitor Company. We are the exclusive licensee for implantable medical applications of this technology. We have also developed our own portfolio of patents and patent applications covering improvements that we have made to Evans' capacitor technology. We believe that we are the only supplier of wet tantalum capacitors for the implantable medical device industry. In 1997, we entered into an agreement with a major ICD manufacturer to use our capacitor technology in its next generation of ICDs.

## MEDICAL COMPONENTS

We manufacture feedthroughs, electrodes and other precision components that are utilized in implantable medical devices. Feedthroughs and electrodes are critical components of these devices that deliver electrical energy to the heart.

**FEEDTHROUGHS.** Feedthroughs are components that transmit electrical signals from inside an implantable medical device to the electrodes that transmit the signals to the body. Feedthroughs consist of an outer metallic structure called a flange, an electrical insulator made of ceramic or glass material, and wire connectors called poles that carry electrical signals from within the device. Our feedthroughs use a ceramic to metal seal that is substantially more durable than a traditional glass to metal seal. We also manufacture a feedthrough that includes a filtering capacitor that can filter out electromagnetic interference, such as signals from cellular phones.

We design and manufacture 35 types of feedthroughs. Each of our feedthroughs is designed specifically for a particular customer device. We are often the sole source of feedthroughs for our customers. In 2000, approximately 95% of our feedthroughs were used in pacemakers and ICDs, with the balance used primarily in left ventricular assist devices, hearing assist devices, drug pumps and neurostimulators. We are currently working with a number of medical device manufacturers to develop hermetic feedthroughs for the next generation of implantable medical devices and applications, including neurostimulators, middle ear devices, oxygen sensors and muscle stimulation devices.

**ELECTRODES.** Electrodes are components used in pacemakers and ICDs that deliver the electrical signal from the feedthrough to the heart to restore its normal rhythm. By coating the electrode with chemical compounds, we can enhance its electrical properties and therefore better deliver energy to the heart. Some electrode tips are designed to contain medication, such as steroids, to prevent scarring of the heart tissue following electrode implantation.

We design and manufacture a variety of coated electrodes, some of which have tips that can contain medication. We believe that our experience with physical deposition processes, such as sputtering and powder metallurgic techniques, has enabled us to produce high quality coated surfaces utilizing almost any combination of biocompatible coating surfaces.

**PRECISION COMPONENTS.** We design and manufacture miniature precision components and subassemblies primarily for pacemaker and ICD manufacturers. Our precision components are machined or molded to adhere to tolerances up to one ten-thousandth of an inch. To manufacture precision components, we typically use various alloys of stainless steel, platinum, titanium, aluminum and brass, as well as plastics and composites. We also are the exclusive supplier of a critical drug pump subassembly for a manufacturer of implantable drug pumps. Although our primary focus is to develop and manufacture precision components for implantable medical devices, we also serve the general medical equipment market and the aerospace industry.

## COMMERCIAL POWER SOURCES

We have developed specialized power source technologies that are functional in high temperatures or under high shock and vibration. The majority of the commercial power sources that we sell are used in oil and gas exploration, including recovery equipment, pipeline inspection gauges, down-hole pressure measurement systems and seismic surveying equipment. We also supply power sources to NASA for its space shuttle program. In addition, our commercial power sources have been used for emergency position locating beacons and locator transmitters, classified governmental uses, electronic circuit breakers for industrial applications, weather balloon instrumentation, electricity transmission cable lighting detectors, wear monitors for train cables and scientific equipment used in Antarctica.

## PRODUCT LINES UNDER DEVELOPMENT

**RECHARGEABLE LITHIUM ION BATTERIES.** We are currently developing a line of rechargeable lithium ion batteries that is expected to broaden and complement our current lines of lithium batteries. A number of new medical devices require rechargeable batteries, including:

- **LEFT VENTRICULAR ASSIST DEVICES** that are being developed to treat heart failure use external and internal batteries as power sources, both of which must be rechargeable. We are developing lithium ion rechargeable technology to produce lighter batteries with increased power and longer life.
- **IMPLANTABLE HEARING ASSIST DEVICES** that are used to treat patients who cannot use conventional hearing aids. These batteries are compact and are capable of providing low levels of current with infrequent recharging.
- **NEUROSTIMULATORS AND DRUG PUMPS** that are used for indications such as tremors, diabetes and

chronic pain. Since these devices are sometimes implanted in young patients, the use of our rechargeable battery technology with extended device life should reduce the number of replacement implants needed throughout the life of the patient.

**IMPLANTABLE PUMP TECHNOLOGY.** We have developed proprietary technology that has applications in implantable devices that are designed to deliver small quantities of drugs or other fluids to a patient. Several of our technologies are critical to these devices, including the power source, the feedthroughs and the pumping mechanism that moves the fluid. Currently, one of our customers has regulatory approval in Europe for a device that utilizes our implantable pump technology and has recently filed with the United States Food and Drug Administration, or FDA, for regulatory approval in the United States.

## RESEARCH, DEVELOPMENT AND ENGINEERING

Our position as a leading developer and manufacturer of power sources for implantable medical devices 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 maintain close relationships with leading research organizations, including Alfred University, Clarkson University, the Jet Propulsion Laboratory, the applied physics department of Johns Hopkins University, NASA, Sandia-National Laboratories, the State University of New York at Buffalo and Villanova University. These relationships include funding research efforts, licensing researchers' technology and assisting in building prototypes. Our research, development and engineering team is responsible for a number of pioneering developments in the implantable medical device industry including:

YEAR	COMMERCIAL INTRODUCTION	INDUSTRY IMPACT
1972	First lithium anode battery	Industry standard for pacemakers
1974	First ceramic-to-metal seal for implantable devices	Industry standard for hermetic sealing of devices
1980	First oxhyalide/interhalogen batteries	Enabled commercial batteries to perform at lower temperatures with very high energy density
1981	First implantable pump capable of passing bubbles	Enabled implantable drug delivery system
1987	First implantable lithium/silver vanadium oxide battery	Enabled commercial viability of ICDs
1996	First titanium-encased lithium/carbon monofluoride pacemaker batteries	Enabled weight reduction and improved electrical performance for advanced microelectronics
1999	First wet tantalum capacitors	Enabled smaller sizes of ICDs and increased design flexibility

## 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. To date, we have been granted 143 U.S. patents and 193 foreign patents. We also have 152 U.S. and 171 foreign pending patent applications at various stages of approval. During the past three years, we have received 49 new U.S. patents, of which 23 were received in 2000. Corresponding foreign patents have been issued or are expected to be issued in the near future. Often, a single product is protected by several patents covering various aspects of the design. We believe this provides broad protection of the concepts employed. The following table provides a breakdown of our patents as of March 1, 2001 by product type:

PRODUCT	NUMBER OF PATENTS GRANTED	NUMBER OF ACTIVE PATENTS
-----	-----	-----
Batteries--Pacemakers	166	15
Batteries--ICDs	94	79
Capacitors	4	4
Feedthroughs	2	2
Pumps	8	8
Batteries--Commercial	21	12
Batteries--Rechargeable	3	3
Batteries--Lithium/carbon monofluoride	7	7
Other products	31	5

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Total	336	135
	===	===

The following table sets forth the expiration dates of our material patents as of March 1, 2001:

DESCRIPTION OF PATENT -----	EXPIRATION DATE -----
Defibrillator cell design	May 2006
Defibrillator cell design	May 2006
Serpentine electrode design for prismatic cell	May 2011
Butterfly electrode assembly	September 2011
Butterfly electrode assembly	September 2011
Multiplate electrode design connected by bridge	September 2011
Insulating upper bag for increased cell reliability	May 2012
Halogenated polymer fiber separator for electrochemical cell	October 2013
Sheet cathode	November 2013
Sheet cathode	November 2013
High shock and vibration resistant cell design	February 2015
Aqueous blended electrode material	March 2015
Carbonate electrolyte additives for defibrillator cells	March 2015
Separator insert for oxyhalide cell	February 2016
Dual connection tab current collector for carbon monofluoride cells	July 2016
Hermetic seal using a single close ball	October 2016
Improved electrolyte/cathode ratio for carbon monofluoride cells	November 2016
Ultrasonically coated substrate for use in a capacitor and method of manufacture	May 2017
Hermetically sealed wet tantalum capacitor	May 2017
Separator for use in carbon monofluoride cells	June 2017
Electrode edge design for increased energy density for carbon monofluoride cells	August 2017
Insulating upper bag for increased cell reliability	April 2018

In addition, we are also a party to several license agreements with third parties pursuant to which we have obtained, on varying terms, the exclusive or non-exclusive rights to patents held by third parties. We have also granted rights in our own patents to others under license agreements. We used three material patents that expired in January 2001 in connection with our production of pacemaker batteries. The primary impact on our business as a result of the expiration of these patents is the termination of the related royalties paid by Medtronic. Otherwise, we expect the impact of the expiration of these patents on our product line to be immaterial.

We license the basic capacitor technology used in our defibrillator capacitors from Evans Capacitor Company. The license extends throughout the lives of the related patents, which expire in 2010, 2013 and 2014. The license can be cancelled if we default under the license agreement and fail to cure the default. A cancellation of the license would seriously impair our ability to produce our entire line of capacitors. We license the anode technology we use in our rechargeable lithium ion batteries from AT&T. The license extends throughout the lives of the related patents, one of which expired in 2000 and one of which will expire in 2002. The license can be cancelled if we default under the license agreement and fail to cure the default. A cancellation of the license may impair our ability to produce our entire line of rechargeable lithium ion batteries. We do not expect the expiration of the license, as a result of the expiration of the patents underlying it, to have a material effect on any of our product lines.

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

#### MANUFACTURING AND QUALITY CONTROL

Our principal manufacturing facilities are in Clarence, New York, Cheektowaga, New York, Canton, Massachusetts and Columbia, Maryland. Our three New York manufacturing facilities produce implantable power sources, capacitors, commercial power sources and components. Our Canton, Massachusetts facility produces commercial power sources. Our Columbia, Maryland facility produces feedthroughs, electrodes and other components. We test our implantable power sources at our Wheatfield, New York facility.

In 1999 and 2000, we have modernized our facilities and a number of our manufacturing lines, processes and equipment. These

manufacturing improvements have enabled us to increase the quality and service life of our power sources and other components and increase our manufacturing capacity. Key resources that allow us to manufacture subassemblies include a full model shop, a precious metals machining area, injection molding equipment and a Class 10,000 clean room.

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

Our quality system is based upon an ISO documentation system and is driven by a master validation plan that requires rigorous testing and validation of all new processes or process changes that directly impact our products. Our New York facilities are ISO-9001 certified, which requires compliance with regulations regarding quality systems of product design, supplier control, manufacturing processes and management review. This certification can only be achieved after completion of an audit conducted by an independent authority. Our New York facilities are audited by the British Standards Institute and are also certified by the British Standards Institute to the more rigorous EN-46001 standard that is usually reserved for manufacturers of medical devices. Our Columbia, Maryland facility is ISO-9002 certified and is audited by TUV Rheinland of North America, an independent auditing firm that specializes in evaluating ISO quality standards. To maintain certification, all facilities must be reexamined every six months by their respective certifying bodies.

## SALES AND MARKETING

We utilize a combination of direct and indirect sales methods, depending on the particular product. In 2000, approximately 70% of our products were sold in the United States.

We market and sell our implantable power sources and capacitors directly to manufacturers of implantable medical devices. The majority of our implantable power source customers contract with us to develop custom batteries or capacitors to fit their specific product specifications. As a result, we have established close working relationships between our internal program managers and our customers. We market our power source products and technologies at industry meetings and trade shows, including CardioStim and North American Society of Pacing and Electrophysiology, or NASPE.

We sell feedthroughs, electrodes and other precision components directly to manufacturers. Two internal sales managers support all activity, and involve engineers and materials professionals in the sales process to address customer requests appropriately. As in the implantable power source and capacitor sales process, we have established relationships directly with leading manufacturers of implantable medical devices. We market our precision components, feedthroughs and electrodes by participating in the annual Medical Design and Manufacturing trade show and by producing printed and electronic marketing materials for distribution to prospective customers.

We sell our commercial power sources either directly to the end user, directly to manufacturers that incorporate our products into other devices for resale, or to distributors who sell our products to manufacturers and end users. Our sales managers are trained to assist our customers in selecting appropriate battery chemistries and configurations. We market our commercial power sources at various technical trade meetings, including the annual Petroleum Offshore Technology Conference and Offshore Europe. We also place print advertisements in relevant trade publications.

Firm backlog orders at December 29, 2000 and December 31, 1999, were \$29.7 million and \$16.2 million, respectively. Most of these orders were expected to be shipped within one year. The \$13.5 million increase was primarily due to backlog from our new line of wet tantalum capacitors and from BEI, which we acquired in August 2000.

## 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. Our medical products customers include leading implantable medical device manufacturers such as Guidant, St. Jude Medical and Medtronic. In 2000, Guidant accounted for approximately 34% of our revenues and St. Jude Medical accounted for approximately 31% of our revenues. Our commercial products customers are primarily companies involved in the aerospace, oil and gas exploration and oceanographic industries.

In February 1999, we entered into a supply agreement with Guidant. Pursuant to the agreement, Guidant purchases batteries and components from us for use in its implantable medical devices. Guidant also separately purchases components from us for use in its implantable medical devices. Our supply agreement with Guidant expires on December 31, 2001 and can be renewed for additional one year periods upon mutual agreement.

In April 1997, we entered into a supply agreement with St. Jude Medical. In accordance with this agreement, we are the primary supplier of many components used in their pacemakers and ICDs, except for microprocessors and capacitors. We will also be the exclusive supplier of batteries to St. Jude Medical through the expiration of the supply agreement on December 31, 2003, with the ability of St. Jude to extend the agreement for two (2) one-year extensions.

In March 1976, we entered into a technology transfer agreement and license agreement with Medtronic. Our license agreement provides

Medtronic with the nonexclusive right to use our proprietary technology to manufacture its own batteries. The license agreement allows Medtronic to manufacture lithium/iodine or lithium/halide batteries, but does not permit Medtronic to manufacture batteries using our new titanium lithium/carbon monofluoride technology. In accordance with the license agreement, Medtronic pays us a royalty for each battery produced by it for use in each medical device that it sells. At the time we entered into the license agreement with Medtronic, there were a number of competing battery technologies. Our management believed that licensing our proprietary technology to Medtronic, which was the industry leader at that time, would help make our technology the industry standard. Our license agreement does not terminate so long as Medtronic uses any of our patented technology. However, in the absence of new patents, we do not expect to receive significant royalties from Medtronic for production and sales after January 2001.

In July 1991, we entered into a defibrillator battery supply agreement with Medtronic. In accordance with the agreement, we provide Medtronic with lithium/silver vanadium oxide batteries for their ICDs. Our supply agreement with Medtronic expires on July 31, 2001.

## SUPPLIERS AND RAW MATERIALS

Lithium, iodine and metal cases are the most significant raw materials that we use to manufacture our batteries. In the past, we have not experienced any significant interruptions or delays in obtaining raw materials. We seek to minimize inventory levels, which provides us with a reduced risk of obsolescence. Minimizing our inventory levels also enables us to stock materials based on firm order requirements, rather than forecasts and anticipated sales. However, we maintain minimum safety stock levels of critical raw materials. We seek to improve our supply purchase pricing by using bulk purchases, precious metal pool buys and blanket orders and by entering into long term contracts. Annual minimum purchase levels under these contracts have historically been well below our expected annual usage, and therefore present little risk of liability.

We have long standing relationships with most of our significant suppliers and have conducted business with them for an average of 13 years. Our supply agreements typically have three year terms. Our significant suppliers of raw materials and components accounted for approximately 31% of our purchases in 2000. We believe that there are alternative suppliers or substitute products available for each of the materials we purchase, at competitive prices. Our material supply agreements may be terminated prior to their scheduled expiration dates if there is a material breach by us that remains uncured.

## COMPETITION

We currently supply implantable power sources, capacitors, feedthroughs, electrodes and precision components to the implantable medical device market. Our existing or potential competitors include:

- leading implantable medical device manufacturers, such as Guidant, St. Jude Medical and Medtronic, which have vertically integrated operations or may become vertically integrated in the future; and
- smaller companies that concentrate on niche markets.

Medtronic produces power sources for use in implantable medical devices that it manufactures. However, to our knowledge Medtronic does not sell power sources to third parties. Our company and Medtronic are the two major manufacturers of power sources for implantable medical devices. We also compete in the intensely competitive commercial power source market. Our principal competitors in this market are Eagle-Picher Industries and ECO-Tracer. While we believe that the industry perceives our products to be of the highest quality, there are suppliers whose products are perceived to be of comparable quality. Moreover, the commercial power sources market is subject to volatility in oil and gas exploration activity. When oil and gas exploration activity has slowed, a number of our competitors have historically reduced battery prices to maintain or gain market share. Quality and technology are the principal bases upon which we compete in both the implantable medical devices market and the commercial power sources market.

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

As a component manufacturer, our products are not subject to FDA pre-market approval. However, the FDA and related state and foreign governmental agencies regulate many of our customers' products as medical devices. In many cases, the FDA must approve those products prior to commercialization. In addition, because some of the products produced by our engineered components division may be considered finished medical devices, some of the operations within that division are subject to FDA inspection and must comply with current good

manufacturing practices (CGMP) requirements.

## RECRUITING AND TRAINING

We dedicate significant resources to our recruiting efforts. Our internal recruiting efforts primarily focus on supplying quality personnel to our business. We also seek to meet our hiring needs through outside sources. We believe that a strong human resources and recruiting effort is necessary to expand our current employee base and maintain our high employee retention rates. We have established a number of programs that are designed to challenge and motivate our employees and we encourage our employees to be proactive in contributing ideas and regularly survey them to collect feedback on ways that our business and operations can be improved.

We provide an intensive training program to our new employees which is designed to educate them on safety, quality, our business strategy and the methodologies and technical competencies that are required for our business and our corporate culture. Our safety training programs focus on such areas as basic industrial safety practices and emergency response procedures to deal with 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. We also have formal, mandatory training for all of our employees in their core competencies on an annual basis. We offer our employees a tuition reimbursement program and encourage them to continue their education at local colleges. 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 work in a uniform and consistent manner and that best practices are effectively utilized.

## EMPLOYEES

As of December 29, 2000, we had 837 employees, including 149 research, development and engineering personnel, 511 manufacturing personnel and 177 support personnel. We also employ a number of temporary employees to assist us with various projects and service functions. Our employees are not represented by any union and, except for certain executive officers of our company and our subsidiaries, are retained on an at-will basis. We believe that we have a good relationship with our employees.

## 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 revenues, expenses and profitability;
- the future development and expected growth of our business and the implantable medical device industry;
- our ability to successfully execute our business model and our business strategy;
- our ability to identify trends within the industries for implantable medical devices, medical components and commercial power sources and to offer products and services that meet the changing needs of those markets;
- projected capital expenditures; and
- trends in government regulation.

You can identify forward-looking statements by terminology such as “may”, “will”, “should”, “could”, “expects”, “intends”, “plans”, “anticipates”, “believes”, “estimates”, “predicts”, “potential” or “continue” or the negative of these terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially from those suggested by these forward-looking statements. In evaluating these statements and our prospects generally, you should carefully consider the factors set forth below. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary factors and to others contained throughout this report. We are under no duty to update any of the forward-looking statements after the date of this report or to conform these statements to actual results.

Although it is not possible to create a comprehensive list of all factors that may cause actual results to differ from the results expressed or implied by our forward-looking statements or that may affect our future results, some of these factors include the following:

**WE DEPEND HEAVILY ON A LIMITED NUMBER OF CUSTOMERS, AND IF WE LOSE ANY OF THEM, WE WOULD LOSE A SUBSTANTIAL PORTION OF OUR REVENUES.**

A substantial portion of our business in 2000 was conducted with a limited number of customers, including Guidant, St. Jude Medical,

Medtronic, Biotronik and Sulzer Intermedics, which was acquired by Guidant in 1999. In 2000, Guidant accounted for approximately 34% of our revenues and St. Jude Medical accounted for approximately 31% of our revenues. As a result, we depend heavily on revenues from Guidant and St. Jude Medical. Our supply agreements, particularly with our large customers, might not be renewed in the future after they expire, including our power source supply agreement with Guidant, which expires on December 31, 2001, and our supply agreement with St. Jude Medical, which expires on December 31, 2003. Our supply agreements with St. Jude Medical, Medtronic, Biotronik and Guidant do not require any minimum purchase levels. The loss of any large customer for any reason could 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 REDUCED SALES AND A LOSS OF CUSTOMERS, WHICH WOULD NEGATIVELY AFFECT OUR 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. For example, in 1998, an industry-wide design change in ICDs occurred, resulting in new ICDs using one battery instead of two. Primarily as a result of this design change, our implantable power source revenues decreased 19% in 1999 compared to 1998. 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 number of our customers. In addition, other new products introduced by our customers may require fewer of our power sources or components. We dedicate a significant amount of resources to the development of our power sources and other 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 power sources and other products could cause our business to suffer. If this occurs, our revenues and operating results would suffer.

**IF WE ARE UNABLE TO SUCCESSFULLY MARKET OUR CURRENT OR FUTURE PRODUCTS, OUR BUSINESS WILL BE HARMED.**

The market for our power sources, components and other products has been growing in recent years. If the market for our products does not grow as rapidly as forecasted by industry experts, our revenues could be less than expected. In addition, it is difficult to predict the rate at which the market for our products will grow or at which new and increased competition will result in market saturation. Slower growth in the pacemaker and ICD markets in particular would negatively impact our revenues. In addition, we face the risk that our products will lose widespread market acceptance. We cannot assure you that our customers will continue to utilize the products we offer or that a market will develop for our future products. We may at times determine that it is not technically or economically feasible for us to manufacture future 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.

**WE ARE SUBJECT TO PRICING PRESSURES FROM CUSTOMERS, WHICH COULD HARM OUR OPERATING RESULTS.**

We have made price concessions to some of our large customers in recent years and we expect customer pressure for pricing concessions will continue. Further, 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 also could harm our operating results or 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, plastics, cases, lids, glass, screens, tantalum, platinum, ruthenium, gallium trichloride, tantalum pellets and vanadium pentoxide. Raw materials needed for our business are susceptible to fluctuations due to transportation, government regulations, price controls, economic climate or other unforeseen circumstances. In recent months, increasing global demand for some of the raw materials we need for our business, including platinum, gallium trichloride and tantalum, has caused the prices of these materials to increase significantly. In addition, there are a limited number of worldwide suppliers of the lithium needed to manufacture our products. We cannot assure you that we will be able to continue to procure raw materials critical to our business or to procure them at acceptable price levels.

We rely on third party manufacturers to supply many of our raw materials. For example, we rely on FMC to supply us with lithium for our power sources and HC Starks to supply us with tantalum powder and wire for capacitors. 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 of 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.

**AMORTIZATION OF OUR INTANGIBLE ASSETS, WHICH REPRESENT A SIGNIFICANT PORTION OF OUR TOTAL ASSETS, WILL ADVERSELY IMPACT OUR NET INCOME AND WE MAY NEVER REALIZE THE FULL VALUE OF OUR INTANGIBLE ASSETS.**

As of December 29, 2000, we had \$104.4 million of net intangible assets, representing 57% of our total assets and 77% of our

stockholders' equity. These intangible assets consist primarily of goodwill arising from our acquisition of Hittman and accruals relating to our trademarks and patented technology. We expect to incur amortization expenses relating to these intangible assets of \$6.6 million in 2001 and \$5.6 million in 2002. These expenses will reduce our future earnings or increase our future losses. We may not receive the recorded value for our intangible assets if we sell or liquidate our business or assets. 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 are impaired, and in the event of such a charge to earnings, the market price of our common stock could be adversely affected.

**QUALITY PROBLEMS WITH OUR POWER SOURCES AND OTHER PRODUCTS COULD HARM OUR REPUTATION FOR PRODUCING HIGH QUALITY PRODUCTS AND ERODE OUR COMPETITIVE ADVANTAGE.**

Our power sources and other products are held to high quality standards. In the event that our power sources and other products fail to meet these standards, our reputation for producing high quality power sources and other products could be harmed, which would damage our competitive advantage.

**OUR OPERATING RESULTS MAY FLUCTUATE, WHICH MAY MAKE IT DIFFICULT TO FORECAST OUR FUTURE PERFORMANCE AND MAY RESULT IN VOLATILITY IN OUR STOCK PRICE.**

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

- the 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 March 1, 2001, we held 135 active patents. We cannot guarantee that the steps we have taken or will take to protect our proprietary rights will 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.

In addition, we may not be able to detect unauthorized use of our intellectual property and take appropriate steps to enforce our rights. 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 AND KEY PERSONNEL FROM OUR BUSINESS OPERATIONS.**

In producing our power sources and other components for implantable medical devices, third parties may claim that we are infringing their intellectual property rights, and we may be found to have infringed those intellectual property rights. While we do not believe that any of our products infringe the intellectual property rights of third parties, 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. Although we do not believe that any of our active patents should be subject to invalidation, if any claim for invalidation prevailed, the result could be greatly expanded opportunities for third parties to manufacture and sell products which compete with our products. We also typically do not receive significant indemnification from parties which license technology to us against third party claims of intellectual property infringement. Any litigation or other challenges regarding our patents or other intellectual property could be costly and time consuming and could divert our management and key personnel from our business operations. The complexity of the technology involved in producing our power sources and other components for implantable medical devices, and the uncertainty of intellectual property litigation increase these risks. Claims of intellectual property infringement might also require us to enter into costly royalty or license agreements. However, we may not be able to obtain royalty or license agreements on terms acceptable to us, or at all. We also may be subject to significant

damages or injunctions against development and sale of our products. Infringement claims, even if not substantiated, could result in significant legal and other costs and may be a distraction to management.

**IF WE BECOME SUBJECT TO PRODUCT LIABILITY CLAIMS, OUR EARNINGS AND FINANCIAL CONDITION COULD SUFFER.**

The manufacture and sale of our products expose us to potential product liability claims and product recalls, including those which may arise from 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. 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 otherwise or require us to pay significant damages. The occurrence of product liability claims or product recalls could cause our earnings and financial condition to suffer.

We carry product liability insurance coverage which is limited in scope and amount. Our management believes that our insurance coverage is adequate given the risks we face. We cannot assure you that we will be able to maintain this insurance or to do so at reasonable cost and on reasonable terms. We also cannot assure you that this insurance will be adequate to protect us against a product liability claim that arises in the future.

**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 power sources and other 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, our customers and other 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 cannot assure you that we would 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 PROFESSIONALS 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 that is used in manufacturing and producing power sources and other components for implantable medical devices. 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 retain personnel. In 1999, we temporarily reduced salaries companywide by 10% and later restored salaries to their original levels. In connection with these salary reductions, we implemented various measures to retain our existing employees, including granting stock options to some of our key employees to compensate for the temporary 10% reduction in salaries. If a number of our employees resign from our company to join or form a competitor, the loss of these employees and any resulting loss of existing or potential clients to a competitor could harm our business, financial condition and results of operations. Any inability to attract, train, retain and motivate employees and management would cause our business, financial condition and results of operations to suffer.

**WE MAY FACE COMPETITION FROM ONE OF OUR PRINCIPAL 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 power sources for implantable medical devices may intensify in the future. One or more of our customers that manufactures implantable medical devices may undertake additional vertical integration initiatives and begin to manufacture some or all of their power source needs. Although Medtronic manufactures its own lithium batteries for its pacemakers and ICDs, to date, to our knowledge, Medtronic has not sold batteries to third parties. In 1999, Medtronic introduced a new ICD that reduced the number of batteries from two to one and caused us to lose some unit volume in 1999 and 2000. If Medtronic were to begin selling power sources for implantable medical devices to third parties, our revenues could be harmed. As the implantable medical device industry continues to consolidate, this risk will intensify. Many of our potential implantable power source and component competitors, which include some of our customers, have greater name recognition, longer operating histories, larger customer bases, longer customer relationships and greater financial, technical, personnel and marketing resources than our company.

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 cause our results of operations to suffer.

**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 and we have not experienced any serious accidents or deaths, there is a risk that an accident or death could occur in one of our facilities. Any accident, such as a chemical spill, could result in significant manufacturing delays or claims for damages resulting from injuries, which would harm our operations and financial condition. The potential liability resulting from any such accident or death, to the extent not covered by insurance, could cause our business to suffer. Any disruption of operations at any of our facilities could harm our business.

**IF WE ARE NOT SUCCESSFUL IN MAKING ACQUISITIONS TO EXPAND AND DEVELOP OUR BUSINESS, OUR FINANCIAL RESULTS MAY SUFFER.**

A component of our strategy is to make selective 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. For example, in August 1998, we acquired Hittman and in August 2000, we acquired BEI. Our continued growth will depend on our ability to identify and acquire companies that complement or enhance our business on acceptable terms. We may not be able to identify or complete future acquisitions. Some of the risks that we may encounter include expenses associated with, and difficulties in identifying, potential targets, the costs associated with incomplete acquisitions and higher prices for acquired companies because of competition for attractive acquisition targets. Our failure to acquire additional companies could cause our financial results to suffer.

**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 expect to make selective 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. However, implementation of our acquisition strategy entails a number of risks, including:

- inaccurate assessments of undisclosed liabilities;
- 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 efficiencies and cost savings; and
- increases in our indebtedness and a limitation in our ability to access additional capital when needed.

**WE INTEND TO EXPAND INTO NEW MARKETS AND OUR PROPOSED EXPANSION PLANS MAY NOT BE SUCCESSFUL.**

We intend to expand into new markets through the development of new product applications based on our existing component technologies. These efforts have required, and will continue to require, us to make substantial investments, including significant research, development and engineering expenditures and capital expenditures for new, expanded or improved manufacturing facilities. We cannot assure you that we will be able to successfully manage expansion into new markets and products or that these efforts will not have an adverse impact on our business. 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 price competition.

**OUR FAILURE TO OBTAIN LICENSES FROM THIRD PARTIES FOR NEW TECHNOLOGIES OR THE LOSS OF THESE LICENSES COULD IMPAIR OUR ABILITY TO DESIGN AND MANUFACTURE NEW PRODUCTS.**

We occasionally license technologies from third parties rather than depending exclusively on our own proprietary technology and developments. For example, we license wet tantalum technology from the Evans Capacitor Company to produce our capacitors. 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 cannot assure you that we will be able to continue to identify new technologies developed by others and even if we are able to identify new technologies, we may not be able to negotiate licenses on favorable terms, or at all. Additionally, we could lose rights granted under licenses for reasons beyond our control. For example, the licensor could lose patent protection for a number of reasons, including invalidity of the licensed patent.

**WE AND OUR CUSTOMERS ARE SUBJECT TO VARIOUS POLITICAL, ECONOMIC AND REGULATORY CHANGES IN THE HEALTHCARE INDUSTRY WHICH COULD FORCE US TO MAKE MODIFICATIONS TO 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, implantable medical device products produced by our healthcare customers are subject to regulation by the FDA and similar international

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 FOR OUR COMPANY TO COMPLY WITH.

Federal, state and local regulations impose various environmental controls on the manufacturing, transportation, storage, use and disposal of power sources and hazardous chemicals and other materials used in the manufacturing of power sources. We cannot assure you that conditions relating to our historical operations which may require expenditures for clean-up will not arise in the future or that changes in environmental laws and regulations will not impose costly compliance requirements on us or otherwise subject us to future liabilities. We also cannot assure you that additional or modified regulations relating to the manufacture, transportation, storage, use and disposal of materials used to manufacture our power sources or restricting disposal of power sources will not 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 HAVE AN ADVERSE EFFECT ON OUR REVENUES AND RESULTS OF OPERATIONS.

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 results of operations would suffer.

#### OUR BUSINESS IS INDIRECTLY SUBJECT TO HEALTHCARE INDUSTRY COST CONTAINMENT MEASURES THAT COULD RESULT IN REDUCED SALES OF OUR PRODUCTS.

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

#### OUR COMMERCIAL POWER SOURCE REVENUES ARE DEPENDENT ON CONDITIONS IN THE OIL AND NATURAL GAS INDUSTRY, WHICH HISTORICALLY HAS BEEN VOLATILE.

Sales of our commercial power sources depend to a great extent upon the condition of the oil and gas industry and, specifically, the exploration and production expenditures of oil and gas companies. 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, or OPEC, to set and maintain production levels and pricing, the level of production of non-OPEC countries, the price and availability of alternative fuels, political stability in oil producing regions and the policies of the various governments regarding exploration and development of their oil and natural gas reserves. An adverse change in the oil and gas exploration and production industry or a reduction in the exploration and production expenditures of oil and gas companies could cause our revenues from commercial power sources to suffer.

## ITEM 2.

### PROPERTIES

Our executive offices are located in Clarence, New York. The building that houses our executive offices also contains warehouse operations, a variety of support services and capacity for light manufacturing or laboratory space.

The following table sets forth information about all of our principal manufacturing or testing facilities:

Location	Sq. Ft.	Own/Lease	Use
Clarence, NY(1)	70,453	Own	Battery manufacturing, development
Clarence, NY(2)	20,800	Own	Machining and assembly of components
Clarence, NY(2)	18,550	Lease	Machining and assembly of components
Clarence, NY	45,305	Lease	Offices and warehouse
Wheatfield, NY	2,600	Lease	Battery testing
Cheektowaga, NY	23,812	Lease	Capacitor manufacturing
Canton, MA(1)	32,000	Own	Battery manufacturing, development
Columbia, MD	30,000	Lease	Feedthroughs, electrodes and components manufacturing

(1) Commercial power source revenues are generated from these facilities.

(2) We own and rent space in part of the same facility.

We believe these facilities are adequate for our current and foreseeable purposes and that additional space will be available when needed.

### ITEM 3. LEGAL PROCEEDINGS

We are involved in various lawsuits and claims incidental to our business. In the opinion of our management, the ultimate liabilities, if any, resulting from these lawsuits and claims will not materially affect our financial position or results of operations.

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

None.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The company's common stock is traded on the New York Stock Exchange, or NYSE, under the symbol "GB". The common stock began trading on the NYSE on September 29, 2000 following our initial public offering. The following table sets forth, for the periods indicated, the high and low closing prices per share for the common stock as reported on the NYSE Composite Tape.

	Year Ended December 29, 2000	
	High	Low
Third Quarter (commencing September 29, 2000)	\$22.88	\$22.88
Fourth Quarter	29.88	21.75

As of March 26, 2001, there were 127 record holders of the company's common stock.

We do not intend to pay cash dividends in the foreseeable future. We currently intend to retain any earnings to further develop and grow our business and to reduce our indebtedness. We are a holding company and are dependent on distributions from our subsidiaries to meet our cash requirements. The terms of the credit agreement governing our credit facility restrict the ability of our subsidiaries to make distributions to us and, consequently, restrict our ability to pay dividends on our common stock.

### ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table provides selected financial data of the company for the periods indicated. You should read the selected consolidated financial data set forth below in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and with our consolidated financial statements and related notes appearing elsewhere in this report. The consolidated statement of operations data for the years ended January 1, 1999, December 31, 1999 and December 29, 2000 and the consolidated balance sheet data at December 31, 1999 and December 29, 2000 have been derived from our financial statements and related notes appearing elsewhere in this report which have been audited by Deloitte & Touche LLP, independent auditors. The statement of operations data for year ended December 31, 1996, the period from January 1, 1997 to July 10, 1997 and the period from July 11, 1997 to January 2, 1998 and the balance sheet data at

December 31, 1996, January 2, 1998 and January 1, 1999 have been derived from our audited financial statements and related notes not included in this report which have been audited by Deloitte & Touche LLP, independent auditors.

	Wilson Greatbatch Ltd. (1)			Wilson Greatbatch Technologies, Inc.		
	Year Ended December 31, 1996	January 1, 1997 to July 10, 1997	July 11, 1997 to January 2, 1998	Year Ended		
				January 1, 1999 (2)	December 31, 1999	December 29, 2000
Consolidated Statement of Operations Data:						
Total revenues	\$51,390	\$30,468	\$27,193	\$77,361	\$79,235	\$97,790
Cost of goods sold	26,070	14,922	12,241	36,454	41,057	55,446
Gross profit	25,320	15,546	14,952	40,907	38,178	42,344
Selling, general and administrative	10,356	6,729	5,412	11,484	9,880	11,473
Research, development and engineering	7,951	4,400	4,619	12,190	9,339	9,941
Intangible amortization	--	--	1,810	5,197	6,510	6,530
Transaction related expenses	--	11,097	--	--	--	--
Write-off of purchased in-process research, development and engineering	--	--	23,779	--	--	--
Interest expense	7,013	(6,680)	(20,668)	12,036	12,449	14,400
Other	388	252	4,128	10,572	13,420	12,958
	(124)	(117)	74	364	1,343	(189)
Income (loss) before income taxes	6,749	(6,815)	(24,870)	1,100	(2,314)	1,631
Income tax expense (benefit)(3)	157	1,053	(9,468)	410	(605)	611
Extraordinary loss on retirement of debt	--	--	--	--	--	(1,568)
Cumulative effect of accounting change	--	--	--	--	(563)	--
Net income (loss)	\$6,592	\$(7,868)	\$(15,402)	\$690	\$(2,272)	\$(548)
Net earnings (loss) per share(4):						
Basic	\$732	\$(874)	\$(1.74)	\$0.07	\$(0.18)	\$(0.04)
Diluted	\$732	\$(874)	\$(1.74)	\$0.06	\$(0.18)	\$(0.04)
Weighted average shares outstanding(4):						
Basic	9	9	8,855	10,461	12,491	14,167
Diluted	9	9	8,855	10,677	12,491	14,434
Consolidated Balance Sheet Data:						
Total assets	\$32,462	N/A	\$111,709	\$194,390	\$189,779	\$181,647
Long-term obligations	5,150	N/A	72,714	129,563	127,623	30,951
Total liabilities	15,548	N/A	83,470	148,795	143,372	45,813
Total stockholders' equity	16,914	N/A	28,239	45,595	46,407	135,834

(1) The financial data for periods prior to July 11, 1997 relate to Wilson Greatbatch Ltd., our predecessor.

(2) In August 1998, we acquired the assets and liabilities of Hittman. These figures include the results of operations of Hittman from August 8, 1998 to January 1, 1999.

(3) Wilson Greatbatch Ltd., our predecessor, incurred minimal state taxes as a former subchapter S corporation. The federal and state taxes for the period from January 1, 1997 to July 10, 1997 are directly attributable to our acquisition of our predecessor in July 1997.

(4) We calculate basic earnings per share by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. We calculate diluted earnings (loss) per share by adjusting for common stock equivalents, which consist of stock options. During the period from July 11, 1997 to January 2, 1998 and the year ended December 31, 1999, there were options to purchase 0 and 246 shares of common stock, respectively, that were not included in the computation of diluted earnings per share because to do so would be antidilutive for those periods. Diluted earnings per share for all other periods include the potentially dilutive effect of stock options.

## 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

We are a leading developer and manufacturer of power sources, feedthroughs and wet tantalum capacitors used in implantable medical devices. We also develop and manufacture other precision-engineered components used in implantable medical devices. We leverage our core competencies in technology and manufacturing to develop and produce power sources for commercial applications that demand high performance and reliability. These applications include aerospace, oil and gas exploration and oceanographic equipment.

In August 2000, we acquired all of the capital stock of BEI, a small specialty battery manufacturer, from Hitachi-Maxell, Ltd. in exchange for 339,856 shares of our common stock and assumption of approximately \$2.7 million of indebtedness. The acquisition was accounted for as a

purchase. The excess of the acquisition cost over the fair value of the net assets acquired was \$0.8 million, all of which was allocated to goodwill.

In October 2000, we completed our initial public offering. We sold 5,750,000 shares of common stock at a price of \$16.00 per share and received net proceeds of \$84.0 million. All net proceeds were used to prepay a portion of our senior debt.

We derive revenues from the sale of medical and commercial products. Our medical revenues consist of sales of implantable power sources, capacitors and components. Our commercial revenues consist of sales of commercial power sources.

Our implantable power source revenues are derived from sales of batteries for pacemakers, ICDs and other implantable medical devices. We also record royalties as implantable power source revenues for licenses we have granted to others for the manufacture of batteries using designs and processes patented by us. Our capacitor revenues are derived from sales of our wet tantalum capacitors, which we developed for use in ICDs. Our components revenues are derived from sales of feedthroughs, electrodes and other precision components principally used in pacemakers and ICDs. We also sell our components for use in other implantable medical devices. Our commercial power sources revenues are derived primarily from sales of batteries for use in oil and gas exploration. We also supply batteries to NASA for its space shuttle program and other similarly-demanding commercial applications.

Our fiscal year ends on the closest Friday to December 31. Accordingly, our fiscal year will periodically contain more or less than 365 days. For example, fiscal 1998 ended on January 1, 1999, fiscal 1999 ended on December 31, 1999 and fiscal 2000 ended on December 29, 2000. Our fiscal quarters are three-month periods that end on the Friday closest to the end of the applicable calendar quarter.

## FISCAL 2000 COMPARED TO FISCAL 1999

### REVENUES

Total revenues for 2000 were \$97.8 million, an \$18.6 million, or 23%, increase from \$79.2 million for 1999. The growth in revenues was primarily due to sales of our line of wet tantalum capacitors, which were launched commercially in the fourth quarter of 1999, and the inclusion of revenues from BEI since its acquisition in August 2000.

Medical. Total medical revenues for 2000 were \$83.8 million, a \$14.6 million, or 21%, increase from \$69.2 million for 1999. Implantable power source revenues for 2000 were \$41.3 million, a \$0.8 million, or 2%, increase from \$40.5 million for 1999. This increase was primarily due to higher pacemaker battery sales as a result of an increase in pacemaker device sales by our customers, both foreign and domestic. This increase was partially offset due to an industry-wide design change in ICDs that resulted in ICDs using one battery instead of two. This conversion began in mid-1999 and was substantially complete by the third quarter of 2000. Capacitor revenues for 2000 were \$12.6 million, a \$10.3 million increase from \$2.3 million for 1999. This increase was primarily due to initial commercial sales of our new wet tantalum capacitors beginning in the fourth quarter of 1999. Medical components revenues for 2000 were \$29.9 million, a \$3.5 million, or 13%, increase from \$26.4 million for 1999. This increase was primarily due to the sale of a greater number of implantable medical devices by our customers, as well as our sales of a broader range of components in 2000 when compared with 1999.

Commercial. Commercial power sources revenues increased 40% to \$14.0 million compared to \$10.0 million for 1999. The higher revenues were primarily related to the inclusion of revenues from the BEI acquisition that was completed in August 2000.

### GROSS PROFIT

Gross profit for 2000 was \$42.3 million, a \$4.2 million, or 11%, increase from \$38.2 million for 1999. As a percentage of total revenues, gross profit for 2000 declined to 43.3% from 48.2% for 1999. This decrease was primarily due to a lower percentage of total revenues from established product lines such as implantable power sources, with no accompanying start-up costs, versus a higher percentage of total revenues from newer products, with accompanying high start-up costs, such as capacitors. In addition, sales of lower margin products, such as medical components and commercial power sources, have increased at a faster rate than have sales of historically higher margin implantable power sources.

### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for 2000 were \$11.5 million, a \$1.6 million, or 16%, increase from \$9.9 million in 1999. The increase in selling, general and administrative expenses is primarily due to the inclusion of such expenses from BEI since its acquisition in August 2000, wage increases in 2000 as compared to wage decreases in 1999 and the accrual of incentive compensation in 2000 whereas there were no such accruals in 1999. As a percentage of total revenues, selling, general and administrative expenses were 11.8% and 12.5% in 2000 and 1999, respectively. The increase in total revenues mitigated the increase in selling, general and administrative expenses as a percentage of revenues.

### RESEARCH, DEVELOPMENT AND ENGINEERING EXPENSES

We remain committed to investing in the development of new products and in enhancing the performance of our existing products.

Research, development and engineering expenses for 2000 were \$9.9 million, a \$0.6 million, or 6%, increase from \$9.3 million for 1999. Payments received from customers for the development of proprietary battery models are recorded as an offset to research, development and engineering expenses. Such payments totaled \$3.2 million and \$2.5 million in 2000 and 1999, respectively. As a percentage of total revenues, research, development and engineering expenses before such payments for 2000 declined to 13.4% from 15.0% for 1999. This decrease was primarily due to the rapid growth in capacitor sales and the growth in revenues of products that historically have not required significant research, development and engineering expenses, such as medical components and commercial power sources. Major areas of development are rechargeable lithium ion batteries and new battery systems for advanced ICD applications.

#### OTHER OPERATING EXPENSES

Intangible amortization was \$6.5 million for 2000 and 1999. Interest expense for 2000 was \$13.0 million, a decrease of \$0.5 million, or 3%, from \$13.4 million for 1999. This decrease was due to the use of net proceeds from our initial public offering to prepay \$84.0 million of our senior debt. Miscellaneous income of \$0.2 million in 2000 compares with miscellaneous expense of \$1.3 million in 1999. In 2000, we sold interest rate cap agreements, which were no longer needed due to the prepayment of our senior debt, for a gain of \$0.2 million. In 1999, we wrote down by \$0.9 million the carrying value of our investment in an unaffiliated company.

#### PROVISION FOR INCOME TAXES

Our effective tax rate increased to 37% for 2000 from 26% for 1999. This increase was primarily due to the decrease in state tax credits available to us for 2000 as compared to 1999.

#### EXTRAORDINARY CHARGE

In addition to the \$84.0 million prepayment of our senior debt with the net proceeds of our initial public offering, we redeemed a portion of our subordinated debt. These two transactions resulted in an extraordinary charge, net of tax, of \$1.6 million in 2000. The charge relates to the write-off of fees and other expenses incurred to establish the original debt financing.

#### NET LOSS

Our net loss for 2000 narrowed to (\$0.5) million from a net loss of (\$2.3) million in 1999. The reduction in net loss was primarily due to an increase in gross profit. The net loss per share was (\$0.04) for 2000, assuming dilution, and (\$0.18) for 1999.

#### FISCAL 1999 COMPARED TO FISCAL 1998

##### REVENUES

Total revenues for 1999 were \$79.2 million, a \$1.9 million, or 2%, increase from \$77.4 million for 1998.

Medical. Total medical revenues for 1999 were \$69.2 million, a \$4.7 million, or 7%, increase from \$64.5 million for 1998. Implantable power source revenues for 1999 were \$40.5 million, a \$9.9 million, or 20%, decrease from \$50.3 million for 1998. This decrease was primarily due to a 1999 industry-wide design change in ICDs that reduced the number of batteries from two to one and the loss of market share by our ICD battery customers as a result of the introduction of a new ICD by Medtronic. Medtronic manufactured its own power sources for this ICD. This decrease was also due to a reduction in pacemaker battery demand resulting from Guidant's acquisition and subsequent closure of operations of Sulzer Intermedics, which previously purchased batteries from us. This decrease was partially offset by the successful launch of a new pacemaker by one of our customers and increased demand and orders from one of our customers that secured a government contract for pacemakers. Capacitor revenues for 1999 were \$2.3 million, a \$2.2 million increase from \$0.1 million for 1998. This increase resulted primarily because we began selling our new wet tantalum capacitors commercially in the fourth quarter of 1999. Medical components revenues for 1999 were \$26.4 million, a \$12.4 million, or 89%, increase from \$14.0 million for 1998. This increase was primarily due to the inclusion of a full year of operations from our Hittman acquisition and the sale of a greater number of implantable medical devices by our customers.

Commercial. Commercial power source revenues for 1999 were \$10.0 million, a \$2.9 million, or 22%, decrease from \$12.9 million for 1998. This decrease was primarily due to continued weakness in the oil and gas industry.

##### GROSS PROFIT

Gross profit for 1999 was \$38.2 million, a \$2.7 million, or 7%, decrease from \$40.9 million for 1998. As a percentage of revenues, gross profit for 1999 declined to 48% from 53% in 1998. The decrease in implantable power source gross profit amounted to 9% of revenue, while capacitor start-up costs totaled 6% of revenue.

##### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for 1999 were \$9.9 million, a \$1.6 million, or 14%, decrease from \$11.5 million for 1998. As a percentage of revenues, selling, general and administrative expenses for 1999 declined to 12% from 15% in 1998. These decreases were due

to a temporary reduction in salaries, the deferral of annual merit increases, a reduction in incentive compensation, a general cutback in discretionary expenses and a reduction in the number of our employees.

The temporary reduction in salaries was in effect from April 1999 through December 1999 and reduced selling, general and administrative expenses by \$0.3 million in 1999. The reduction in incentive compensation, including both management bonuses and broad-based profit sharing, reduced expenses by \$1.0 million compared to 1998. Discretionary expenses in 1999 were \$0.3 million lower than in 1998. Three employees accounted for in selling, general and administrative expenses were terminated as part of the 1999 cost reductions, with total cost savings of less than \$0.1 million, net of severance benefits.

#### RESEARCH, DEVELOPMENT AND ENGINEERING EXPENSES

Research, development and engineering expenses for 1999 were \$9.3 million, a \$2.9 million, or 23%, decrease from \$12.2 million for 1998. As a percentage of total revenues, research, development and engineering expenses in 1999 declined to 12% from 16% in 1998. Beginning in 1999, as we anticipated achieving production volumes of our capacitors, we accounted for costs associated with our capacitor program as cost of goods sold, selling, general and administrative expenses and research, development and engineering expenses. In prior years, these costs were recognized only as research, development and engineering expenses. This had the effect of lowering research, development and engineering expenses in 1999 by \$1.4 million as compared to 1998. In addition, in 1999, we had no research, development and engineering expenses for Greatbatch Scientific, one of our product lines, which we sold in 1998. The amount of the decrease in research, development and engineering expenses resulting from the sale of Greatbatch Scientific was \$0.8 million. Greatbatch Scientific was a developer of battery-powered surgical tools that were magnetic resonance imaging, or MRI, compatible and incurred \$0.8 million in research, development and engineering expenses in 1998.

Costs were also reduced in 1999 for the same programs as were discussed above under the caption "Selling, General and Administrative Expenses." The temporary reduction in salaries reduced costs in 1999 by \$0.3 million. The reduction in incentive compensation reduced expenses by \$0.6 million. Four employees accounted for in research, development and engineering expenses were terminated as part of the 1999 cost reductions, with total cost savings of \$0.1 million, net of severance benefits. Non-refundable engineering fees, which serve to offset expenses, declined by \$0.3 million in 1999 compared to 1998.

#### OTHER OPERATING EXPENSES

Intangible amortization expense for 1999 was \$6.5 million, an increase of \$1.3 million, or 25%, from \$5.2 million in 1998. This increase was primarily due to incurring a full year of amortization of intangible assets associated with the Hittman acquisition in 1998. Interest expense was \$13.4 million in 1999, an increase of \$2.8 million, or 27%, from \$10.6 million in 1998. This increase was due to the combination of a full year of interest expense in 1999 related to the 1998 acquisition of Hittman and higher interest rates in 1999 as compared to 1998. Other expense was \$1.3 million in 1999, an increase of \$0.9 million from \$0.4 million in 1998. The increase resulted primarily from a write down of our investment in an unaffiliated company that we acquired in conjunction with our sale of Greatbatch Scientific.

#### PROVISION FOR INCOME TAXES

Our effective tax rate declined to 26% in 1999 from 37% in 1998. Our recapture of federal alternative minimum tax credits at a 20% tax rate resulted in a rate differential of 15% from the federal statutory rate. We also benefited from state tax credits.

#### NET INCOME (LOSS)

Net loss was (\$2.3) million for 1999, a \$3.0 million decrease from net income of \$0.7 million for 1998. This decrease was primarily due to an increase in cost of goods sold and higher other expenses, as described above, as well as the nonrecurring cumulative effect of an accounting change which resulted in a charge of \$0.6 million, net of taxes. The net loss per share was \$(0.18) in 1999, compared with net income per share of \$0.06 in 1998, both assuming dilution.

#### LIQUIDITY AND CAPITAL RESOURCES

We strengthened our financial position in 2000 through the successful completion of our initial public offering. All of the net proceeds from the initial public offering were used to pay down a portion of our senior debt. We used the proceeds from a private sale of our stock prior to the IPO to pay off the debt we assumed in conjunction with our purchase of BEI. We also redeemed \$5.0 million of our 13% senior subordinated notes. As a consequence, our debt to equity ratio fell to 25% at December 29, 2000 as compared to 287% at December 31, 1999. To further enhance our financial position, in January 2001 we restructured our remaining long-term debt.

#### LIQUIDITY

As of December 29, 2000, we had minimal cash and cash equivalents due to the prepayments of our debt. Cash provided by operating activities in 2000 was \$18.2 million compared to \$9.0 million and \$9.1 million in 1999 and 1998, respectively. The increase in cash provided by operating activities in 2000 when compared to 1999 was primarily due to an increase in operating income, the receipt of refunds from state tax credits and previously-paid income taxes and a reduction in net operating assets. Cash provided by operating activities declined in 1999 as from 1998 levels primarily due to a net loss in 1999 compared to net income of \$0.7 million in 1998, offset by higher non-cash charges in

1999.

Cash used in investing activities was \$3.4 million, \$8.8 million and \$83.4 million for 2000, 1999 and 1998, respectively. Capital expenditures were \$4.5 million, \$8.5 million and \$6.2 million for 2000, 1999 and 1998, respectively. Our acquisition of Hittman significantly impacted cash used in investing activities in 1998.

Cash used in financing activities was \$18.6 million and \$0.4 million in 2000 and 1999, respectively compared with cash provided by financing activities of \$76.1 million in 1998. In 2000, we used the proceeds from our initial public offering and cash generated by operating activities to prepay or make regularly scheduled payments of \$94.8 million on our senior debt, including our revolving line of credit. We redeemed \$5.0 million of our 13% subordinated notes and purchased \$2.0 million of our common stock, which we currently hold as treasury shares, from the holder of the redeemed notes. The stock was valued at the initial public offering price of \$16.00 per share. In 2000, we also sold \$3.0 million of our stock to the previous owner of BEI and used these proceeds to pay off the \$2.7 million in debt we assumed in the BEI acquisition. Cash provided by financing activities in 1999 and 1998 was primarily the result of transactions related to our acquisition of Hittman and debt repayments.

We believe that cash generated from operations will be sufficient to meet our working capital needs and planned capital expenditures for the near term. Capital expenditures for 2001 are expected to be approximately \$8.2 million, of which approximately \$2.9 million will be for capital supporting new product development. Should suitable investment opportunities arise during fiscal 2001, we believe that our earnings, cash flows and balance sheet will permit us to obtain additional debt or equity capital, if necessary. There can be no assurance, however, that additional financing will be available to us or, if available, that it can be obtained on a timely basis or on terms acceptable to us.

## CAPITAL STRUCTURE

Our capital structure consists of interest-bearing debt and equity. Interest-bearing debt as a percentage of our total capitalization decreased to 20% at December 29, 2000 compared to 74% at December 31, 1999, primarily due to the use of the net proceeds from our initial public offering to pay down a portion of our senior debt. Our long-term debt at December 29, 2000 consisted of subordinated notes and senior debt. Senior debt was comprised of Term A and Term B loans and a \$20.0 million revolving line of credit.

In January 2001, we entered into a \$60.0 million credit facility consisting of a \$40.0 million term loan and a \$20.0 million revolving line of credit. Both the term loan and the revolving line of credit have a term of five years and mature on January 1, 2006. The new credit agreement is secured by our accounts receivable and inventories and requires us to comply with various quarterly financial covenants related to EBITDA, as defined in the credit agreement, and ratios of leverage, interest and fixed charges as they relate to EBITDA. Both the term loan and revolving line of credit bear interest at a rate that varies with our level of leverage. At current leverage levels, the applicable interest rates for both the term loan and the revolving line of credit are prime less 1.0% or the London Interbank Offered Rate, or LIBOR, plus 1.25%, at our option. At March 1, 2001, the weighted average interest rate for the term loan was 6.8%, and there was \$0.5 million outstanding under the revolving line of credit.

We used the proceeds from the new term loan to pay off the remaining senior debt and the senior subordinated notes that were outstanding as of December 29, 2000, plus accrued interest and a call premium. At that date, there was \$18.3 million principal amount outstanding under our 13% senior subordinated notes, \$6.2 million outstanding under our Term A loan facility and \$9.0 million outstanding under our Term B loan facility. There were no amounts outstanding under the revolving line of credit. At December 29, 2000, the weighted average interest rate for our Term A loans was 10.3% and the weighted averaged interest rate for our Term B loans was 10.5%. Associated with this debt prepayment was an extraordinary charge recorded in the first quarter of 2001 in the amount of \$3.0 million, net of tax.

## INFLATION

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

## NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*. In June 2000, the FASB issued SFAS No. 138, which amends certain provisions of SFAS 133 to clarify four areas causing difficulties in implementation. The amendment included expanding the normal purchase and sale exemption for supply contracts, permitting the offsetting of certain intercompany foreign currency derivatives and thus reducing the number of third party derivatives, permitting hedge accounting for foreign-currency denominated assets and liabilities, and redefining interest rate risk to reduce sources of ineffectiveness. We adopted SFAS No. 133 effective December 30, 2000, which was the first day of fiscal 2001. We do not expect the adoption of SFAS No. 133 to have a significant impact on the consolidated financial position, results of operations, or cash flows of the Company.

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

Under the new credit facility both the term loan and any borrowings under the line of credit bear interest at fluctuating market rates. An analysis of the impact on our interest rate sensitive financial instruments of a hypothetical 10% change in short-term interest rates shows an impact on expected 2001 earnings of less than \$0.2 million of higher or lower earnings, depending on whether short-term rates rise or fall by

10%. The discussion and the estimated amounts referred to above include forward-looking statements of market risk which involve certain assumptions as to market interest rates. Actual future market conditions may differ materially from such assumptions. Accordingly, the forward-looking statements should not be considered projections of future events by our company.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of our company and report of independent auditors thereon are set forth below.

### Independent Auditors' Report

Consolidated Balance Sheets as of December 29, 2000 and December 31, 1999

Consolidated Statements of Operations for the years ended December 29, 2000, December 31, 1999 and January 1, 1999.

Consolidated Statements of Stockholders' Equity for the years ended December 29, 2000, December 31, 1999 and January 1, 1999.

Consolidated Statements of Cash Flows for the years ended December 29, 2000, December 31, 1999 and January 1, 1999.

Notes to Consolidated Financial Statements.

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Wilson Greatbatch Technologies, Inc. and subsidiary (the "Company") as of December 29, 2000 and December 31, 1999, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 29, 2000. Our audits also included the financial statement schedule listed in the Index at Item 14(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Wilson Greatbatch Technologies, Inc. and subsidiary as of December 29, 2000 and December 31, 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 29, 2000, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, in 1999, the Company changed its method of accounting for costs of start-up activities.

Deloitte & Touche LLP

Buffalo, New York  
January 24, 2001

## WILSON GREATBATCH TECHNOLOGIES, INC. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS DECEMBER 29, 2000 AND DECEMBER 31, 1999 (IN THOUSANDS)

December 29,  
ASSETS

December 31,

2000

1999

CURRENT ASSETS:		
Cash and cash equivalents	\$ 16	\$ 3,863
Accounts receivable, net of allowance for doubtful accounts of \$319 and \$219 as of December 29, 2000 and December 31, 1999, respectively	12,977	11,016
Inventories	13,643	13,583
Prepaid expenses and other assets	819	868
Refundable income taxes	623	2,520
Deferred tax asset	1,863	1,520
	-----	-----
Total current assets	29,941	33,370
PROPERTY, PLANT AND EQUIPMENT, NET	36,625	33,557
INTANGIBLE ASSETS, NET	104,395	112,902
DEFERRED TAX ASSET	8,800	7,828
OTHER ASSETS	1,886	2,122
	-----	-----
TOTAL ASSETS	\$ 181,647	\$ 189,779
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,365	\$ 2,385
Accrued liabilities	9,480	7,139
Current maturities of long-term obligations	3,017	6,225
	-----	-----
Total current liabilities	14,862	15,749
LONG-TERM OBLIGATIONS	30,951	126,988
DEFERRED COMPENSATION	-	635
	-----	-----
Total liabilities	45,813	143,372
	-----	-----
COMMITMENTS AND CONTINGENCIES (Note 13)		
STOCKHOLDERS' EQUITY:		
Common stock	19	12
Subscribed common stock	-	1,684
Capital in excess of par value	157,526	63,488
Retained deficit	(17,532)	(16,984)
	-----	-----
Subtotal	140,013	48,200
Less treasury stock, at cost	(4,179)	(109)
Less subscribed common stock receivable	-	(1,684)
	-----	-----
Total stockholders' equity	135,834	46,407
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 181,647	\$ 189,779
	=====	=====

See notes to consolidated financial statements.

**WILSON GREATBATCH TECHNOLOGIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF OPERATIONS  
YEARS ENDED DECEMBER 29, 2000, DECEMBER 31, 1999 AND JANUARY 1, 1999  
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)**

	2000	1999	1998
REVENUES	\$ 97,790	\$ 79,235	\$ 77,361
COST OF GOODS SOLD	55,446	41,057	36,454
	-----	-----	-----
GROSS PROFIT	42,344	38,178	40,907
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	11,473	9,880	11,484
RESEARCH, DEVELOPMENT AND ENGINEERING COSTS, NET	9,941	9,339	12,190
INTANGIBLE AMORTIZATION	6,530	6,510	5,197
	-----	-----	-----
INTEREST EXPENSE	14,400	12,449	12,036
OTHER (INCOME) EXPENSE	12,958	13,420	10,572
	(189)	1,343	364
	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES, EXTRAORDINARY LOSS AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	1,631	(2,314)	1,100
INCOME TAX EXPENSE (BENEFIT)	611	(605)	410
	-----	-----	-----
INCOME (LOSS) BEFORE EXTRAORDINARY LOSS AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	1,020	(1,709)	690
EXTRAORDINARY LOSS ON RETIREMENT OF DEBT, NET OF TAX	(1,568)	-	-
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAX	-	(563)	-
	-----	-----	-----
NET (LOSS) INCOME	\$ (548)	\$ (2,272)	\$ 690
	=====	=====	=====
BASIC EARNINGS (LOSS) PER SHARE:			

Income (loss) from continuing operations	\$ 0.07	\$ (0.14)	\$ 0.07
Extraordinary loss on retirement of debt	(0.11)	-	-
Cumulative effect of accounting change	-	(0.04)	-
	-----	-----	-----
Net (loss) earnings	\$ (0.04)	\$ (0.18)	\$ 0.07
	=====	=====	=====
DILUTED EARNINGS (LOSS) PER SHARE:			
Income (loss) from continuing operations	\$ 0.07	\$ (0.14)	\$ 0.06
Extraordinary loss on retirement of debt	(0.11)	-	-
Cumulative effect of accounting change	-	(0.04)	-
	-----	-----	-----
Net (loss) earnings	\$ (0.04)	\$ (0.18)	\$ 0.06
	=====	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING			
Basic	14,167	12,491	10,461
Diluted	14,434	12,491	10,677

See notes to consolidated financial statements.

**WILSON GREATBATCH TECHNOLOGIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 29, 2000, DECEMBER 31, 1999 AND JANUARY 1, 1999  
(IN THOUSANDS EXCEPT SHARES)**

	Common Stock		Subscribed Common Stock		Capital in Excess of Par Value	Retained Earnings (Deficit)	Treasury Stock		Subscribed Common Stock Receivable
	Shares	Amount	Shares	Amount			Shares	Amount	
BALANCE, JANUARY 2, 1998	8,728,262	\$ 9	336,800	\$ 1,684	\$ 43,632	\$ (15,402)	-	\$ -	\$ 1,684
Shares issued in connection with the financing of Greatbatch-Hittman	3,300,000	3	-	-	16,497	-	-	-	-
Shares contributed to Employee Stock Ownership Plan	25,231	-	-	-	126	-	-	-	-
Exercise of stock options	7,960	-	-	-	40	-	-	-	-
Net income	-	-	-	-	-	690	-	-	-
	-----	-----	-----	-----	-----	-----	-----	-----	-----
BALANCE, JANUARY 1, 1999	12,061,453	12	336,800	1,684	60,295	(14,712)	-	-	1,684
Common stock issued	66,537	-	-	-	998	-	-	-	-
Common stock acquired for treasury	-	-	-	-	-	-	7,285	109	-
Shares contributed to Employee Stock Ownership Plan	139,470	-	-	-	2,092	-	-	-	-
Exercise of stock options	20,668	-	-	-	103	-	-	-	-
Net loss	-	-	-	-	-	(2,272)	-	-	-
	-----	-----	-----	-----	-----	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1999	12,288,128	12	336,800	1,684	63,488	(16,984)	7,285	109	1,684
Common stock issued	5,950,000	6	-	-	86,401	-	-	-	-
Common stock acquired for treasury	-	-	-	-	-	-	265,746	4,250	-
Shares contributed to Employee Stock Ownership Plan	57,038	-	-	-	856	-	(11,970)	(180)	-
Shares issued to acquire Battery Engineering, Inc.	339,856	1	-	-	5,097	-	-	-	-
Purchase and cancel fractional shares	(70)	-	-	-	(1)	-	-	-	-
Settlement of common stock subscriptions	336,800	-	(336,800)	(1,684)	1,684	-	-	-	(1,684)
Exercise of stock options	47	-	-	-	1	-	-	-	-
Net loss	-	-	-	-	-	(548)	-	-	-
	-----	-----	-----	-----	-----	-----	-----	-----	-----
BALANCE, DECEMBER 29, 2000	18,971,799	\$ 19	-	\$ -	\$157,526	\$ (17,532)	261,061	\$4,179	\$ -
	=====	=====	=====	=====	=====	=====	=====	=====	=====

See notes to consolidated financial statements.

**WILSON GREATBATCH TECHNOLOGIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEAR ENDED DECEMBER 29, 2000, DECEMBER 31, 1999 AND JANUARY 1, 1999  
(IN THOUSANDS)**

2000	1999	1998	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	\$ (548)	\$ (2,272)	\$ 690
Adjustments to reconcile net (loss) income to net cash provided by operating activities, net of acquisitions:			
Depreciation and amortization	12,102	11,363	9,190
Extraordinary loss on retirement of debt	2,407	-	-
Amortization of deferred financing costs	907	972	699
Deferred income taxes	(369)	1,309	(907)
Loss on disposal of assets	68	146	194
Valuation loss on investment held at cost	-	859	-
Cumulative effect of accounting change	-	939	-
Reserve for disposal of property	-	-	300
Changes in operating assets and liabilities:			
Accounts receivable	(1,018)	947	(4,223)
Inventories	914	(292)	(629)
Prepaid expenses and other assets	2,144	(663)	(57)
Accounts payable	(128)	251	(103)
Accrued liabilities	1,536	(2,741)	4,809
Income taxes	145	(1,826)	(910)

Net cash provided by operating activities	18,160	8,992	9,053
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment	(4,528)	(8,452)	(6,207)
Proceeds from sale of property, plant and equipment	4	5	80
Increase in intangible assets	(417)	(570)	(1,741)
Decrease (increase) in other long term assets	-	170	(2,569)
Cash provided in acquisition of subsidiary	1,583	-	-
Acquisition of subsidiary, net of cash acquired	-	-	(72,938)
Net cash used in investing activities	(3,358)	(8,847)	(83,375)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings (repayments) under line of credit, net	(4,300)	4,300	(700)
Proceeds from long-term debt	-	-	61,853
Scheduled payments of long-term debt	(4,456)	-	(775)
Prepayments of long-term debt	(93,735)	(2,950)	(775)
Acquisition earnout payment	-	(2,764)	-
Purchase of treasury stock	(2,565)	(109)	-
Expenses related to Initial Public offering	(2,153)	-	-
Issuance of common stock	88,560	1,101	16,540
Net cash (used in) provided by financing activities	(18,649)	(422)	76,143
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,847)	(277)	1,821
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,863	4,140	2,319
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 16	\$ 3,863	\$ 4,140

See notes to consolidated financial statements.

**WILSON GREATBATCH TECHNOLOGIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 29, 2000, DECEMBER 31, 1999 AND JANUARY 1, 1999**

**1. DESCRIPTION OF BUSINESS**

**The Entity** - The consolidated financial statements include the accounts of Wilson Greatbatch Technologies, Inc., a holding company, and its wholly-owned subsidiary Wilson Greatbatch Ltd. (collectively, the "Company"). The Company is comprised of its operating companies, Wilson Greatbatch Ltd. and its wholly-owned subsidiaries, Greatbatch-Hittman, Inc. ("Hittman") and Battery Engineering, Inc. ("BEI"). All significant intercompany balances and transactions have been eliminated.

**Nature of Operations** - The Company operates in two reportable segments—medical and commercial power sources. The medical segment designs and manufactures power sources, capacitors and components used in implantable medical devices. The commercial power sources segment designs and manufactures non-medical power sources for use in aerospace, oil and gas exploration and oceanographic equipment.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Accounting Change** - In 1999, the Company adopted Statement of Position 98-5, "Reporting the Costs of Start-Up Activities." This statement required that start-up costs, including organization costs, capitalized by the Company prior to January 2, 1999, be written off and any future start-up costs be expensed as incurred. The total amount of deferred start-up costs reported as a cumulative effect of change in accounting principle was \$939,000, net of tax benefits of \$376,000.

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

**Inventories** - Inventories include raw materials, work-in-process and finished goods and are stated at the lower of cost (as determined by the first-in, first-out method) or market.

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

The cost of repairs and maintenance is charged to expense as incurred. Renewals and betterments are capitalized.

Upon retirement or sale of an asset, its cost and related accumulated depreciation or amortization are removed from the accounts and any gain or loss is recorded in income or expense. The Company continually reviews plant and equipment to determine that the carrying values have not been impaired.

***Intangible Assets*** - Intangible assets include goodwill and other identifiable intangible assets, which were derived in connection with the Company's acquisition of the Predecessor (Wilson Greatbatch Ltd.) in 1997, Hittman and BEI. Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. Goodwill is being amortized on a straight-line basis over 15 to 40 years. Other identifiable intangible assets are being amortized on a straight-line basis over their estimated useful lives as follows: trademark and names, 40 years; patented technology, 12 years; assembled workforce, 10-12 years; and other intangibles, 3-10 years. Deferred financing costs are amortized using the effective yield method over the life of the underlying debt. The Company continually reviews these intangible assets for potential impairment by assessing significant decreases in the market value, a significant change in the extent or manner in which an asset is used or a significant adverse change in the business climate. The Company measures expected future cash flows and compares them to the carrying amount of the asset to determine whether any impairment loss is to be recognized.

***Fair Value of Financial Instruments*** - The fair value of financial instruments is determined by reference to various market data and other valuation techniques, as appropriate. Unless otherwise disclosed, the fair value of cash and cash equivalents approximates their recorded values due to the nature of the instruments. The floating rate debt carrying value approximates the fair value based on the floating interest rate resetting on a regular basis. The fixed rate long-term debt carrying value approximates fair value.

The fair value of the interest rate cap agreements are estimated by obtaining quotes from brokers and represents the cash requirement if the existing contract has been settled at year end. The notional amount, fair value and carrying amount of the Company's interest rate cap agreements were approximately \$79.1 million and \$54.1 million; \$515,300 and \$196,000; and \$229,100 and \$254,500, as of December 31, 1999 and January 1, 1999, respectively. In the fourth quarter of 2000, the Company terminated two of its three interest rate cap agreements. As a result, a gain was recorded and included in ordinary income for the year ended December 29, 2000. The other interest rate cap agreement expired in December 2000 resulting in no gain or loss. At December 29, 2000, the Company was not party to any interest rate cap agreements.

***Concentration of Credit Risk*** - Financial instruments which potentially subject the Company to concentration of credit risk consist principally of trade receivables. A significant portion of the Company's sales are to customers in the medical industry, and, as such, the Company is directly affected by the condition of that industry. However, the credit risk associated with trade receivables is minimal due to the Company's stable customer base and ongoing control procedures, which monitor the creditworthiness of customers.

***Derivative Financial Instruments*** - The Company has only limited involvement with derivative financial instruments and does not enter into financial instruments for trading purposes. Interest rate cap agreements have been used to reduce the potential impact of increases in interest rates on floating-rate long-term debt. Premiums paid for purchased interest rate cap agreements are amortized over the terms of the caps and recognized as interest expense. Unamortized premiums are included in other assets in the consolidated balance sheets. Amounts receivable under interest rate cap agreements are accrued as a reduction of interest expense. At December 29, 2000, the interest rate cap agreements to which the Company had been a party had either expired or been sold.

***Stock Option Plan*** - The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation*. As permitted in that Standard, the Company has chosen to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Prior to its Initial Public Offering in September 2000, there was no readily available market for the Company's stock. In the absence of a "regular, active public market," the fair market value of the common stock had been determined by the Board of Directors, via independent valuations.

***Income Taxes*** - The Company provides for income taxes using the liability method whereby deferred tax liabilities and assets are recognized based on temporary differences between the financial reporting and tax basis of assets and liabilities using the anticipated tax rate when taxes are expected to be paid or reversed.

**Revenue Recognition** - Revenues are recognized when the products are shipped to customers.

**Research, Development and Engineering Costs** – Research, development and engineering costs are expensed as incurred. The Company recognizes cost reimbursements from customers for whom the Company designs products upon achieving milestones related to designing batteries and capacitors for their products. The cost reimbursements charged to customers represent actual costs incurred by the Company in the design and testing of prototypes built to customer specifications. This cost reimbursement includes no mark-up and is recorded as an offset to research, development and engineering costs.

Net research, development and engineering costs for 2000, 1999 and 1998 are as follows (dollars in thousands):

	2000	1999	1998
Research, development and engineering costs	\$ 13,101	\$ 11,885	\$ 15,580
Less cost reimbursements	(3,160)	(2,546)	(3,390)
	-----	-----	-----
Research, development and engineering costs, net	\$ 9,941	\$ 9,339	\$ 12,190
	=====	=====	=====

**Earnings (Loss) Per Share** – Basic earnings per share is calculated by dividing net income (loss) by the average number of shares outstanding during the period. Diluted earnings per share is calculated by adjusting for common stock equivalents, which consist of stock options. There were approximately 0.2 million stock options that were not included in the computation of diluted earnings per share for 1999 because to do so would have been antidilutive. Diluted earnings per share for 2000 and 1998 include the potentially dilutive effect of stock options. All shares held in the Employee Stock Ownership Plan (“ESOP”) are considered outstanding for both basic and diluted earnings (loss) per share calculations.

**Comprehensive Income** – Comprehensive income includes all changes in stockholders’ equity during a period except those resulting from investments by owners and distribution to owners. For all periods presented, the Company’s only component of comprehensive income is its net income (loss) for those periods.

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

**Recent Accounting Pronouncements** – SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Company will adopt SFAS 133 effective December 30, 2000 (first quarter of 2001). Management does not expect the adoption of SFAS 133 to have a significant impact on the consolidated financial position, results of operations, or cash flows of the Company.

**Financial Statement Year End** – The Company’s year end is the closest Friday to December 31. Fiscal 2000, 1999 and 1998 included 52 weeks.

**Supplemental Cash Flow Information:**

	2000	1999	1998
	(In Thousands)		
Cash paid during the year for:			
Interest	\$ 12,883	\$ 13,790	\$ 9,150
Income taxes	122	186	1,482
Noncash investing and financing activities:			
Common stock issued for acquisition	\$ 5,098	\$ -	\$ -
Common stock contributed to ESOP	1,036	2,092	126
Settlement of subscribed common stock receivable	1,684	-	-

**Reclassifications** – Certain reclassifications were made to the prior years’ financial statements to conform with

the current year presentation. None of the reclassifications affected net (loss) income or stockholders' equity.

### 3. ACQUISITIONS

On August 4, 2000, Wilson Greatbatch Ltd. acquired all of the capital stock of BEI, a small specialty battery manufacturer, in exchange for 339,856 shares (\$5,098,000) of Company common stock and the assumption of approximately \$2.7 million of indebtedness.

The acquisition was recorded under the purchase method of accounting and accordingly, the results of the operations of BEI have been included in the consolidated financial statements from the date of acquisition. The purchase price has been allocated to assets acquired and liabilities assumed based on the fair value at the date of acquisition. Liabilities assumed in this acquisition were \$3,946,000. The excess of the acquisition cost over fair value of the net assets acquired was approximately \$0.8 million which was allocated to goodwill.

On August 7, 1998, Wilson Greatbatch Ltd. acquired all of the issued and outstanding shares of Hittman for a total purchase price of \$71.8 million. Of the total purchase price, \$69.0 million was paid in cash at the date of acquisition. The remaining purchase price was contingent upon Hittman achieving certain financial targets in 1998 and 1999. Approximately \$2.8 million of the contingent consideration was incurred in 1998, paid in 1999, and allocated to the purchase price. There is no additional contingent consideration to be incurred.

The acquisition was recorded under the purchase method of accounting and accordingly, the results of the operations of Hittman have been included in the consolidated financial statements from the date of acquisition. The purchase price has been allocated to assets acquired and liabilities assumed based on the fair value at the date of acquisition. Liabilities assumed in this acquisition were \$1,034,000. The excess of the purchase price over fair value of the net assets acquired was approximately \$67.7 million, of which \$17.4 million was allocated to identifiable intangible assets and \$50.3 million was allocated to goodwill.

### 4. INVENTORIES

Inventories consisted of the following (dollars in thousands):

	December 29, 2000	December 31, 1999
Raw material	\$ 7,302	\$ 7,099
Work-in-process	4,941	5,089
Finished goods	1,400	1,395
	-----	-----
Total	\$ 13,643	\$ 13,583
	=====	=====

### 5. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consisted of the following (dollars in thousands):

	December 29, 2000	December 31, 1999
Land and land improvements	\$ 3,316	\$ 2,227
Buildings and building improvements	6,799	5,226
Leasehold improvements	2,837	2,243
Machinery and equipment	32,610	26,153
Furniture and fixtures	1,742	1,628
Computers and information technology	2,569	2,259
Other	678	2,863
	-----	-----
	50,551	42,599
Less accumulated depreciation	(13,926)	(9,042)
	-----	-----

Total

\$ 36,625  
=====

\$ 33,557  
=====

Depreciation expense for 2000, 1999 and 1998 was approximately \$4,943,000, \$4,240,000, and \$3,532,000, respectively.

## 6. INTANGIBLE ASSETS, NET

Intangible assets consisted of the following (dollars in thousands):

	December 29, 2000	December 31, 1999
Goodwill, net of accumulated amortization of \$3,803 and \$2,229	\$ 54,948	\$ 53,944
Trademark and names, net of accumulated amortization of \$2,426 and \$1,685	27,234	27,975
Patented technology, net of accumulated amortization of \$3,952 and \$2,824	9,478	10,606
License agreement, net of accumulated amortization of \$3,459 and \$2,579	988	3,611
Assembled workforce, net of accumulated amortization of \$2,103 and \$1,468	5,277	5,912
Noncompete/employment agreement, net of accumulated amortization of \$2,333 and \$1,400	3,267	4,200
Unpatented proprietary technology, net of accumulated amortization of \$1,611 and \$976	1,589	2,224
Patent licenses, net of accumulated amortization of \$313 and \$312	367	295
Deferred financing costs, net of accumulated amortization of \$4,405 and \$1,746	1,247	3,906
Interest rate cap agreements	-	229
	-----	-----
Total	\$ 104,395 =====	\$112,902 =====

During 2000, a review of underlying data by management resulted in a reclassification of cost and accumulated amortization from license agreement to goodwill. This reclassification did not impact amortization expense for any years presented.

## 7. ACCRUED LIABILITIES

Accrued liabilities consisted of the following (dollars in thousands):

	December 29, 2000	December 31, 1999
Salaries and benefits	\$ 4,901	\$ 3,832
Profit sharing	2,456	1,105
Interest	163	931
Other	1,960	1,271
	-----	-----
Total	\$ 9,480 =====	\$ 7,139 =====

## 8. LONG-TERM OBLIGATIONS

Long-term obligations consisted of the following:

	December 29, 2000	December 31, 1999
(dollars in thousands)		
Long-term Debt:		
Term A Facility, \$50.0 million. This credit facility was refinanced in its entirety on January 12, 2001. See below.	\$ 6,247	\$ 46,250
Term B Facility, \$60.0 million. This credit facility was refinanced in its entirety on January 12, 2001. See below.	9,018	59,250
Revolving Credit Facility, up to \$20.0 million. This credit facility was refinanced in its entirety on January 12, 2001. See below.	-	4,300

Senior Subordinated Notes, principal amount of Notes of \$25.0 million. These notes were refinanced in their entirety on January 12, 2001. See below.	18,337	22,602
	-----	-----
Total long-term debt	33,602	132,402
Other long-term obligations	366	811
	-----	-----
Total long-term obligations	33,968	133,213
Less current maturities of long-term obligations	(3,017)	(6,225)
	-----	-----
Long-term obligations	\$ 30,951	\$ 126,988
	=====	=====

In July 1997, the Company entered into a Credit Agreement with various financial institutions providing a maximum of \$60.0 million in senior, first-secured financing. In August 1998, this agreement was amended and restated to facilitate the Hittman acquisition, and the maximum senior, first secured financing was increased to \$130.0 million (the "Agreement"). The Agreement provided for two term facilities ("Term A Facility" and "Term B Facility") and a revolving credit facility ("Revolving Facility"). No gain or loss was recorded as a result of the amended and restated Agreement.

Also, in July 1997, the Company issued \$25.0 million, 13% Senior Subordinated Notes (the "Senior Subordinated Notes") to various affiliates of the former Donaldson, Lufkin & Jenrette ("DLJ") and third parties and received \$25.0 million related to the issuance. At maturity, July 1, 2007, the entire principal amount of the Senior Subordinated Notes, \$25.0 million, will be payable to the holders of the Senior Subordinated Notes. At the date of inception, the Company recorded \$21,811,688 as its obligation due to lenders and \$3,188,312 for shares issued to the lenders. The difference between the face amount of the Senior Subordinated Notes and the recorded book value is amortized under the effective yield method and will be charged to interest expense over the term of the Senior Subordinated Notes. The effect of this transaction resulted in an effective interest rate of 14.3% in 2000, 1999 and 1998. Payments are subordinated to amounts due under the Agreement. In connection with the issuance of the Senior Subordinated Notes, the Company issued 637,663 shares to the holders of the Senior Subordinated Notes.

The Revolving Facility included the availability to the Company of up to \$20.0 million in the form of either revolving loans, swing-line loans, or letters of credit. The swing-line loans and letters of credit were not to exceed \$2.0 million and \$5.0 million, respectively. The Revolving Facility was due September 30, 2004. There was no balance outstanding at December 29, 2000.

In October 2000, using the net proceeds from its Initial Public Offering, the Company prepaid \$34.4 million of its Term A Facility and \$49.6 million of its Term B Facility. Also in October 2000, the Company repurchased \$5.0 million of its Senior Subordinated Notes and purchased for its Treasury 127,532 shares of common stock from the noteholder. As a result of the prepayment and repurchase transactions, an extraordinary loss for the extinguishment of debt was recorded in the fourth quarter of 2000 in the amount of \$1.6 million, net of tax.

Subsequent to December 29, 2000, the Company consummated a new \$60.0 million credit facility ("New Credit Facility") which was effective January 12, 2001. The New Credit Facility consists of a \$40.0 million Term Loan and a \$20.0 million revolving line of credit. The proceeds from the \$40.0 million Term Loan were used to pay off the Term A Facility, Term B Facility and the Senior Subordinated Notes that were outstanding as of December 29, 2000, plus accrued interest and a call premium. The New Credit Facility has a term of five years and matures on January 1, 2006. Interest is payable monthly on any outstanding prime rate loans and upon the contractual maturity for LIBOR-based loans. The interest rate charged is, at the Company's option, based on either prime or LIBOR plus or minus an interest rate modifier ("Applicable Margin"). At current leverage levels, the applicable interest rates for both the Term Loan and the revolving line of credit are prime less 1.0% or LIBOR plus 1.25%, at the Company's option.

As a result of the payoff of debt in 2001, there will be an extraordinary loss for the extinguishment of debt recorded in the first quarter of 2001 in the amount of \$3.0 million, net of tax.

The following maturity schedule is based on the New Credit Facility (dollars in thousands):

2001	\$	3,000
2002		5,500

2003	7,500
2004	9,500
2005	11,500
Thereafter	3,000
	-----
Total	\$ 40,000
	=====

## 9. INCENTIVE COMPENSATION AND EMPLOYEE BENEFIT PLANS

***Incentive Compensation Plans*** - The Company sponsors various incentive compensation programs, which provide for the payment of cash to key employees based upon achievement of specific earnings goals before incentive compensation expense.

***Employee Stock Ownership Plan*** - The Company sponsors a non-leveraged Employee Stock Ownership Plan (“ESOP”) and related trust as a long-term benefit for substantially all of its employees as defined in the plan documents. Under the ESOP, there are two components to ESOP contributions. The first component is a defined contribution pension plan whose annual contribution equals five percent of each employee’s compensation. Contributions to the ESOP are in the form of Company stock. The second component is a discretionary profit sharing contribution as determined by the Board of Directors. This profit sharing contribution is to be contributed to the ESOP in the form of Company stock. The ESOP is subject to contribution limitations and vesting requirements as defined in the plan.

Compensation cost under the two components of the ESOP recognized by the Company was approximately \$1.9 million in 2000, \$1.1 million in 1999 and \$2.1 million in 1998. As of December 29, 2000, the Company had contributed 237,211 shares under the ESOP and 67,040 committed-to-be released shares under the ESOP, which equals the number of shares to settle the liability based on the closing market price of the shares at December 29, 2000.

***Savings Plan*** - The Company sponsors a defined contribution 401(k) plan, which covers substantially all of its employees. The plan provides for the deferral of employee compensation under Section 401(k) and a Company match. Net pension costs related to this defined contribution pension plan were approximately \$468,000, \$429,000 and \$477,500 in 2000, 1999 and 1998, respectively.

Total costs to the Company for all of the above plans were approximately \$3,367,000, \$1,946,000 and \$4,118,000 in 2000, 1999 and 1998, respectively.

## 10. STOCK OPTION PLANS

The Company has two stock option plans which provide for the issuance of nonqualified and incentive stock options to employees of the Company. The Company’s 1997 Stock Option Plan (“1997 Plan”) authorizes the issuance of options to purchase up to 480,000 shares of common stock of the Company. The stock options generally vest over a five year period and may vary depending upon the achievement of earnings targets. The stock options expire 10 years from the date of the grant. Stock options are granted at exercise prices equal to the fair market value of the Company’s common stock at the date of the grant.

The Company’s 1998 Stock Option Plan (“1998 Plan”) authorizes the issuance of nonqualified and incentive stock options to purchase up to 1,220,000 shares of common stock of the Company, subject to the terms of the plan. The stock options vest over a three to five year period and may vary depending upon the achievement of earnings targets. The stock options expire 10 years from the date of the grant. Stock options are granted at exercise prices equal to the fair value of the Company’s common stock at the date of the grant.

As of December 29, 2000, options for 1,080,642 shares were available for future grants under the two plans. The weighted average remaining contractual life is seven years.

The fair value of stock options granted subsequent to the Company’s Initial Public Offering on September 29, 2000 was the closing stock price on the date of grant. The Compensation Committee of the Board of Directors

had determined the fair value of the stock options granted prior to September 29, 2000. In the absence of a “regular, active public market,” and based in part on independent valuations of the Company’s stock as of December 31, 1999 and 1998 and consideration of comparable companies, the fair value of the common stock underlying stock options granted in 1999 was estimated to be \$15.00 per share. The fair value of the common stock underlying stock options granted in 1998 was estimated to be \$5.00 per share.

A summary of the transactions under the 1997 Plan and 1998 Plan for 1998, 1999 and 2000 follows:

	Option Activity	Weighted- Average Exercise Price
Balance at January 2, 1998	423,600	\$ 5.00
Options granted	57,307	5.00
Options exercised	(7,960)	5.00
Options forfeited	(17,040)	5.00
	-----	
Balance at January 1, 1999	455,907	5.00
Options granted	138,457	15.00
Options exercised	(20,668)	5.00
Options forfeited	(63,439)	5.75
	-----	
Balance at December 31, 1999	510,257	7.60
Options granted	83,472	15.49
Options exercised	(47)	15.00
Options forfeited	(2,997)	15.00
	-----	
Balance at December 29, 2000	590,685	8.70
	=====	
Options exercisable at:		
January 1, 1999	137,412	\$5.00
December 31, 1999	133,325	\$7.05
December 29, 2000	245,759	\$7.66

Of the options outstanding as of December 29, 2000, 376,466 options were at an exercise price of \$5.00, 211,048 options were at a range of exercise prices of \$15.00 to \$16.00, and 3,171 options were at an exercise price of \$26.00. The exercise prices of outstanding options approximated their weighted average exercise prices.

No compensation cost has been recognized in the financial statements because the option exercise price was equal to the estimated fair market value of the underlying stock on the date of grant. The weighted average grant date fair value of options granted was \$9.06 in 2000, \$5.45 for 1999 and \$1.31 for 1998.

The Company has determined the pro forma information as if the Company had accounted for stock options granted under the fair value method of SFAS 123. The binomial option pricing model was used with the following weighted average assumptions: risk free interest rates of 6.37%, 6.55% and 4.37% in 2000, 1999 and 1998, respectively; no dividend yield; expected common stock market price volatility factor of 48% in 2000 and effectively zero in 1999 and 1998; and a weighted average expected life of the options of 7 years. As prescribed by SFAS 123, pro forma net income (loss), basic and diluted earnings (loss) per share would have been \$(1,365,000), \$(0.10), \$(0.10); \$(2,975,000), \$(0.24), \$(0.24); and \$600,000, \$0.06, \$0.06 for 2000, 1999 and 1998, respectively. These pro forma calculations assume the common stock is freely tradable for all years presented and, as such, the impact is not necessarily indicative of the effects on reported net income of future years.

## 11. INCOME TAXES

The components of income tax expense (benefit) attributable to continuing operations for 2000, 1999 and 1998, consisted of the following (dollars in thousands):

	2000	1999	1998
Federal:			
Current	\$ -	\$ (702)	\$ 580
Deferred	411	685	(129)
	-----	-----	-----
	411	(17)	451
	-----	-----	-----
State:			
Current	41	(1,588)	142
Deferred	159	1,000	(183)
	-----	-----	-----
	200	(588)	(41)
	-----	-----	-----
Income tax expense (benefit)	\$ 611	\$ (605)	\$ 410
	=====	=====	=====

The net deferred tax asset includes the following (dollars in thousands):

	December 29, 2000	December 31, 1999
Deferred tax asset - current	\$ 1,863	\$ 1,520
Deferred tax asset - non current	8,800	7,828
	-----	-----
Net deferred tax asset	\$ 10,663	\$ 9,348
	=====	=====

The tax effect of major temporary differences that give rise to the Company's net deferred tax asset are as follows (dollars in thousands):

	December 29, 2000	December 31, 1999
Amortization of intangible assets	\$ 6,714	\$ 7,249
Allowance for obsolete inventory and Uniform Capitalization	683	687
Accrued liabilities and deferred compensation	1,335	751
Depreciation	(2,115)	(1,507)
Restructuring reserves	113	153
Tax credits	1,287	559
Net operating loss carryforwards	2,646	1,430
Other	-	26
	-----	-----
Net deferred tax asset	\$ 10,663	\$ 9,348
	=====	=====

In assessing the reliability of deferred tax assets, management considers, within each taxing jurisdiction, whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the Initial Public Offering and simultaneous reduction of indebtedness and interest expense, as well as projections for future taxable income over the years in which the deferred assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences at December 29, 2000. Accordingly, no valuation allowance has been recorded.

The net deferred tax asset of \$6,714,000 at December 29, 2000 and \$7,249,000 at December 31, 1999 ascribed to the amortization of intangible assets is primarily attributable to the 1997 expensing of purchased in-process research, development and engineering costs.

The provision for income taxes differs in each of the years from the federal statutory rate due to the following:

	2000	1999	1998
Statutory rate	35 %	35 %	35 %
State taxes	(2)	(30)	15

Federal and state tax credits	-	20	(14)
Other	4	1	1
	----	----	----
Effective tax rate	37 %	26 %	37 %
	====	====	====

## 12. CAPITAL STOCK

The authorized capital stock of the Company consists of 100,000,000 shares of common stock, \$.001 par value per share. Under the terms of the New Credit Facility, the Company may pay dividends in an amount up to 50% of net income. Holders of common stock have one vote per share.

On September 29, 2000, the Company conducted its Initial Public Offering. Together with the underwriter's over-allotment, the Company issued 5,750,000 shares in October 2000 and realized proceeds of approximately \$84.0 million, net of issuance costs.

Subscribed common stock receivable consisted of promissory notes, bearing interest at 6.4% (the "Applicable Federal Rate" at the time the notes were issued) extended by the Company to management stockholders to facilitate the purchase of 336,800 shares of common stock. In connection with the Initial Public Offering, the management stockholders tendered to the Company the requisite number of common stock shares at \$16.00 per share to satisfy, in full, the outstanding promissory notes.

## 13. COMMITMENTS AND CONTINGENCIES

The Company is a party to various legal actions arising in the normal course of business. The Company does not believe that any such pending activities should have a material adverse effect on its results of operations or financial position.

The Company is a party to various license agreements through 2003 to manufacture and sell components for use in medical implants and various commercial applications.

**Operating Leases** - The Company is a party to various operating lease agreements for office and manufacturing space. The Company incurred operating lease expense of \$834,000, \$807,000 and \$621,000 for 2000, 1999 and 1998, respectively. Included in this amount is \$211,000, \$211,000 and \$83,655 paid in 2000, 1999 and 1998, respectively to a related party under a non-cancelable operating lease which expires in 2006.

If all lease extension options are exercised as expected by Company management, minimum future annual operating lease payments over the next five years for the Company are \$789,000 in 2001; \$790,000 in 2002; \$568,000 in 2003; \$501,000 in 2004; and \$517,000 in 2005.

## 14. BUSINESS SEGMENT INFORMATION

The Company operates its business in two reportable segments: medical and commercial power sources. The medical segment designs and manufactures power sources, capacitors and components used in implantable medical devices, which are instruments that are surgically inserted into the body to provide diagnosis or therapy. The commercial power sources segment designs and manufactures non-medical power sources for use in aerospace, oil and gas exploration and oceanographic equipment.

The Company's medical segment includes three product lines that have been aggregated because they share similar economic characteristics and similarities in the areas of products, production processes, types of customers, methods of distribution and regulatory environment. The three product lines are implantable power sources, capacitors and medical components.

The reportable segments are separately managed, and their performance is evaluated based on income from operations. Management defines segment income from operations as gross profit less costs and expenses

attributable to segment specific selling, general and administrative and research, development and engineering. Non-segment specific selling, general and administrative expenses, research, development and engineering expenses, interest expense, intangible amortization and non-recurring items are not allocated to reportable segments. Certain items of income previously classified as unallocated were assigned to reportable segments in 2000. Segment income from operations in 1999 and 1998 has been restated to conform to this revised allocation. Revenues from transactions between the two segments are not significant. The accounting policies of the segments are the same as those described in Note 2.

An analysis and reconciliation of the Company's business segment information to the respective information in the consolidated financial statements is as follows (dollars in thousands):

	2000	1999	1998
Revenues:			
Medical	\$ 83,789	\$ 69,224	\$ 64,449
Commercial power sources	14,001	10,011	12,912
	-----	-----	-----
Total revenues	\$ 97,790	\$ 79,235	\$ 77,361
	=====	=====	=====
Segment income from operations:			
Medical	\$ 30,005	\$ 29,006	\$ 28,937
Commercial power sources	3,494	2,711	4,303
	-----	-----	-----
Total segment income from operations	33,499	31,717	33,240
Unallocated	(31,868)	(34,031)	(32,140)
	-----	-----	-----
Income (loss) before income taxes	\$ 1,631	\$ (2,314)	\$ 1,100
	=====	=====	=====
Depreciation and amortization:			
Medical	\$ 4,826	\$ 3,699	\$ 2,585
Commercial power sources	377	301	290
	-----	-----	-----
Total depreciation included in segment income from operations	5,203	4,000	2,875
Unallocated depreciation and amortization	6,899	7,363	6,315
	-----	-----	-----
Total depreciation and amortization	\$ 12,102	\$ 11,363	\$ 9,190
	=====	=====	=====
Expenditures for tangible long-lived assets, excluding acquisitions:			
Medical	\$ 4,061	\$ 6,700	\$ 2,129
Commercial power sources	82	72	136
	-----	-----	-----
Total reportable segments	4,143	6,772	2,265
Unallocated long-lived tangible assets	385	1,680	3,942
	-----	-----	-----
Total expenditures	\$ 4,528	\$ 8,452	\$ 6,207
	=====	=====	=====
	December 29, 2000	December 31, 1999	
Identifiable assets, net			
Medical	\$ 44,320	\$ 42,236	
Commercial power sources	9,673	5,068	
	-----	-----	
Total reportable segments	53,993	47,304	
Unallocated assets	127,654	142,475	
	-----	-----	
Total assets	\$ 181,647	\$ 189,779	
	=====	=====	

Net revenues by geographic area are presented by attributing revenues from external customers based on where the products are sold. All dollars are in thousands.

	2000	1999	1998
Revenues by geographic area:			
United States	\$ 68,179	\$ 58,644	\$ 60,917
Foreign countries	29,611	20,591	16,444
	-----	-----	-----
Consolidated revenues	\$ 97,790	\$ 79,235	\$ 77,361
	=====	=====	=====
	December 29, 2000	December 31, 1999	
Long-lived assets:			
United States	\$ 151,706	\$ 156,409	
Foreign countries	-	-	
	-----	-----	
Consolidated long-lived assets	\$ 151,706	\$ 156,409	

Two customers accounted for approximately 65%, 64%, and 36% of sales for 2000, 1999 and 1998, respectively. Two customers accounted for approximately 52% and 62% of the outstanding accounts receivable as of December 29, 2000 and December 31, 1999, respectively.

**15. INVESTMENT**

In August 1998, the Company sold the assets of a product line, Greatbatch-Scientific, to a third party in exchange for shares of stock of the third party. Greatbatch-Scientific sales were not significant to the consolidated financial statements. As a result of this transaction, the Company recorded the shares of stock acquired as an investment carried at cost, which approximated \$2.4 million. Cost of the assets sold approximated fair value and accordingly, no gain or loss was recorded in the accompanying consolidated financial statements as of the date of sale. The investment is included in other assets on the consolidated balance sheet. The cost method is used to account for the Company's investment because the Company does not have the ability to exercise significant influence over the investee's operating and financial policies. Management intends for this investment to be long-term. During 1999, an \$859,000 impairment of this investment was recorded. The write-down of the investment represented an other than temporary decline and was based upon the Company's monitoring of this investment and other publicly available information. As of December 29, 2000, the Company has concluded that no change in the carrying value of this investment is warranted.

**16. RESTRUCTURING**

In October 1998, management of the Company initiated a plan to restructure Engineered Components ("EC"), a product line of the Company's medical segment. EC ceased the production of non-medical products to concentrate on its core customer base. The restructuring is not expected to significantly impact future operations. A total of \$825,000 in restructuring costs was charged to operations in fiscal 1998. Such restructuring costs included the following (dollars in thousands):

Asset Impairment Charges:	
Estimated unsaleable inventory	\$ 350
Losses from the planed disposal of equipment	300
	-----
	\$ 650
	=====
Other Restructuring Costs:	
Losses on equipment leases	\$ 100
Severance pay and benefits to employees	75
	-----
	\$ 175
	=====

Approximately \$49,000 for terminated EC employees and \$5,000 for lease exit costs were paid in 1998. The future cash liability at January 1, 1999 approximated \$26,000 for terminated EC employees and \$95,000 for lease exit costs. Approximately \$121,000, including all severance and benefits, was paid in cash, in 1999. In addition, approximately \$80,000 of inventory was disposed of. The remaining assets are anticipated to be disposed of during the first half of 2001.

**17. RELATED PARTY TRANSACTIONS**

The Company had amounts due from related parties of \$1,684,000 at December 31, 1999. Amounts due from related parties were composed of notes receivable from executive officers and key employees in connection with their purchase in 1997 of shares of the Company's common stock. In connection with the Initial Public Offering, the management stockholders tendered to the Company the requisite number of shares of common stock at \$16.00 per share to satisfy, in full, the outstanding promissory notes. (See Note 12).

The Company may from time to time enter into other investment banking relationships with DLJ or one of its affiliates pursuant to which DLJ or its affiliates will receive customary fees and will be entitled to reimbursement

of reasonable disbursements and out-of-pocket expenses incurred in connection therewith. The Company expects that any such arrangement will include provisions for the indemnification of DLJ against liability, including liabilities under the federal securities laws.

DLJ received approximately \$2.8 million related to its capacity as a financial advisor to the Company in connection with the Hittman acquisition, for a syndication fee and a bond consent fee.

The Company is a party to an operating lease to a related party under a non-cancelable operating lease which expires in 2006 (see Note 13). The Company believes the rental amount to be reflective of arms-length, market-based rates for similar structures.

## 18. QUARTERLY SALES AND EARNINGS DATA - UNAUDITED

	(In Thousands, except per share data)			
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
2000				
Revenues	\$ 27,950	\$ 23,256	\$ 23,408	\$ 23,176
Gross profit	12,419	9,726	9,959	10,240
Income (loss) before extraordinary loss	2,656	(860)	(383)	(393)
Net income (loss)	1,088 (a)	(860)	(383)	(393)
Earnings (loss) per share before extraordinary loss - basic	0.14	(0.07)	(0.03)	(0.03)
Earnings (loss) per share before extraordinary loss - diluted	0.14	(0.07)	(0.03)	(0.03)
Earnings (loss) per share - basic (b)	0.06	(0.07)	(0.03)	(0.03)
Earnings (loss) per share - diluted (b)	0.06	(0.07)	(0.03)	(0.03)
1999				
Revenues	\$ 21,296	\$ 19,621	\$ 17,822	\$ 20,496
Gross profit	9,486	9,759	8,461	10,472
Loss before cumulative effect of accounting change	(743)	(52)	(867)	(47)
Net income (loss)	(743)	(52)	(867)	(610) (c)
Loss per share before cumulative effect of accounting change - basic	(0.06)	-	(0.07)	-
Loss per share before cumulative effect of accounting change - diluted	(0.06)	-	(0.07)	-
Earnings (loss) per share - basic (b)	(0.06)	-	(0.07)	(0.05)
Earnings (loss) per share - diluted (b)	(0.06)	-	(0.07)	(0.05)

(a) Amount includes an extraordinary loss for the extinguishment of debt in the amount of \$1,568,000, net of tax.

(b) Per share data has been restated for all periods to reflect a one for three reverse stock split effective May 18, 2000 and a three for five reverse stock split effective August 15, 2000.

(c) Amount includes the cumulative effect of an accounting change of \$563,000, net of tax.

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

None.

### PART III

Reference is made to the information responsive to the Items comprising this Part III that is contained in our definitive proxy statement for our 2001 Annual Meeting of Stockholders, which is incorporated by reference herein.

### PART IV

## ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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

(1) FINANCIAL STATEMENTS

The following consolidated financial statements of our company and report of independent auditors thereon are set forth below.

Independent Auditors' Report

Consolidated Balance Sheets as of December 29, 2000 and December 31, 1999.

Consolidated Statements of Operations for the years ended December 29, 2000, December 31, 1999, and January 1, 1999.

Consolidated Statements of Stockholders' Equity for the years ended December 29, 2000, December 31, 1999 and January 1, 1999.

Consolidated Statements of Cash Flows for the years ended December 29, 2000, December 31, 1999 and January 1, 1999.

Notes to Consolidated Financial Statements

(2) FINANCIAL STATEMENT SCHEDULES

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

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

(In Thousands)

Col. A	Col. B	Col. C Additions		Col. D	Col. E
Description	Balance at Beginning of Period	Charged to & Expenses	Costs Charged to Accounts-Describe	Other Deductions- Describe (1)	Balance at End of Period
Fiscal Year 2000					
Allowance for doubtful accounts	\$ 219	\$ 106	\$ 0	\$ (6)	\$ 319
Valuation allowances for inventory	944	1,810	0	(1,333)	1,421
Fiscal Year 1999					
Allowance for doubtful accounts	197	179	0	(157)	219
Valuation allowances for inventory	1,374	1,689	0	(2,119)	944
Fiscal Year 1998					

Allowance for doubtful accounts	123	111	0	(37)	197
Valuation allowances for inventory	349	1,024	223	(2)	(222) 1,374

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

(2) Business acquisition during 1998.

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

(3) EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
-----	-----
3.1*	Amended and Restated Certificate of Incorporation
3.2*	Amended and Restated Bylaws
10.1*#	1997 Stock Option Plan (including form of "standard" option agreement and form of "special" option agreement)
10.2*#	1998 Stock Option Plan (including form of "standard" option agreement, form of "special" option agreement and form of "non-standard" option agreement)
10.3*#	Wilson Greatbatch Ltd. Equity Plus Plan Money Purchase Plan
10.4*#	Wilson Greatbatch Ltd. Equity Plus Plan Stock Bonus Plan
10.5*#	Employment Agreement, dated as of July 9, 1997, between Wilson Greatbatch Ltd. and Edward F. Voboril
10.6*	Registration and Anti-Dilution Agreement, dated as of July 10, 1997, among Wilson Greatbatch Technologies, Inc., DLJ Investment Partners, L.P., DLJ Investment Funding, Inc., DLJ First ESC L.L.C., The Northwestern Mutual Life Insurance Company and Donaldson, Lufkin & Jenrette Securities Corporation
10.7	Credit Agreement dated as of January 12, 2001 by and among Wilson Greatbatch Ltd., the lenders party thereto and Manufacturers and Traders Trust Company, as administrative agent.
10.8*	Stockholders Agreement, dated as of July 16, 1997, among Wilson Greatbatch Technologies, Inc., DLJ Merchant Banking Partners II, L.P., DLJMB Funding II, Inc., DLJ Merchant Banking Partners II-A, L.P., DLJ Diversified Partners, L.P., DLJ Diversified Partners-A, L.P., DLJ Millennium Partners, L.P., DLJ First ESC L.L.C., DLJ Offshore Partners II, C.V., DLJ EAB Partners, L.P., U.K. Investment Plan 1997 Partners, and the other holders of common stock of Wilson Greatbatch Technologies Inc. party thereto

- 10.9\* Amendment No. 1 to Stockholders Agreement, dated as of October 31, 1997, among Wilson Greatbatch Technologies, Inc., DLJ Merchant Banking Partners II, L.P., DLJMB Funding II, Inc., DLJ Merchant Banking Partners II-A, L.P., DLJ Diversified Partners, L.P., DLJ Diversified Partners-A, L.P., DLJ Millennium Partners, L.P., DLJ First ESC L.L.C., DLJ Offshore Partners II, C.V., DLJ EAB Partners, L.P., U.K. Investment Plan 1997 Partners, and the other holders of common stock of Wilson Greatbatch Technologies, Inc. party thereto
- 10.10\* Management Stockholders Agreement, dated as of July 10, 1997, among Wilson Greatbatch Technologies, Inc., DLJ Merchant Banking Partners II, L.P., DLJMB Funding II, Inc., DLJ Merchant Banking Partners II-A, L.P., DLJ Diversified Partners, L.P., DLJ Diversified Partners-A, L.P., DLJ Millennium Partners, L.P., DLJ First ESC L.L.C., DLJ Offshore Partners II, C.V., DLJ EAB Partners, L.P., U.K. Investment Plan 1997 Partners, and the other holders of common stock of Wilson Greatbatch Technologies, Inc. party thereto
- 10.11\* Subordinated Note Holders Stockholders Agreement, dated as of July 10, 1997, among Wilson Greatbatch Technologies, Inc., DLJ Merchant Banking Partners II, L.P., DLJMB Funding II, Inc., DLJ Merchant Banking Partners II-A, L.P., DLJ Diversified Partners, L.P., DLJ Diversified Partners-A, L.P., DLJ Millennium Partners, L.P., DLJ First ESC L.L.C., DLJ Offshore Partners II, C.V., DLJ EAB Partners, L.P., U.K. Investment Plan 1997 Partners, DLJ Investment Partners, L.P., DLJ Investment Funding, Inc., The Northwestern Mutual Life Insurance Company and Donaldson, Lufkin & Jenrette Securities Corporation
- 10.12\*\*+ Supply Agreement (SVO Batteries), dated as of July 31, 1991, between Wilson Greatbatch Ltd. and Medtronic Inc.
- 10.13\*\*+ Amendment No. 1 to the Supply Agreement (SVO Batteries), dated as of June 3, 1996, between Wilson Greatbatch Ltd. and Medtronic Inc.
- 10.14\*\*+ Amendment No. 2 to the Supply Agreement (SVO Batteries), dated as of March 24, 1997, between Wilson Greatbatch Ltd. And Medtronic Inc.
- 10.15\*\*+ Amendment No. 3 to the Supply Agreement (SVO Batteries), dated as of July 22, 1999, between Wilson Greatbatch Ltd. and Medtronic Inc.
- 10.16\*\*+ Supply Agreement, dated as of February 1, 1999, among Wilson Greatbatch Ltd. and Guidant/CRM
- 10.17\*\*+ Agreement, dated as of April 16, 1997, between Wilson Greatbatch Ltd. and Pacesetter, Inc., a St. Jude Medical Company
- 10.18\*\*+ License Agreement, dated August 8, 1996, between Wilson Greatbatch Ltd. and Evans Capacitor Company
- 10.19\*\*+ Supplier Partnering Agreement, dated as of June 1, 2000, between Wilson Greatbatch Ltd. and Pacesetter, Inc., a St. Jude Medical Company

- 10.20\*\* License Agreement, dated March 16, 1976, between Wilson Greatbatch Ltd. and Medtronic Inc.
- 10.21\*\* Amendment No. 1 to License Agreement, dated July 20, 1976, between Wilson Greatbatch Ltd. and Medtronic Inc.
- 10.22\*\* Stockholders Agreement, dated as of August 23, 1999, among Wilson Greatbatch Technologies, Inc., DLJ Merchant Banking Partners II, L.P., DLJMB Funding II, Inc., DLJ Merchant Banking Partners II-A, L.P., DLJ Diversified Partners, L.P., DLJ Diversified Partners-A, L.P., DLJ Millennium Partners, L.P., DLJ First ESC L.P., DLJ Offshore Partners II, C.V., DLJ EAB Partners, L.P., UK Investment Plan 1997 Partners and Fred Hittman
- 10.23\*\*\* Form of Subscription Agreement, dated on or about July 17, 1997, between Wilson Greatbatch Technologies, Inc. and each of Edward F. Voboril, Larry T. DeAngelo, Curtis F. Holmes, Ph.D., Arthur J. Lalonde, Richard W. Mott and Susan M. Bratton.
- 10.24\*\*\* Form of Management Subscription Agreement, dated November 1, 1997, between Wilson Greatbatch Technologies, Inc. and each of Edward F. Voboril, Larry T. DeAngelo, Curtis F. Holmes, Ph.D., Arthur J. Lalonde, Richard W. Mott and Susan M. Bratton
- 10.25\*\*\* Form of Promissory Note, dated November 1, 1997, payable to Wilson Greatbatch Technologies, Inc. by each of Edward F. Voboril, Larry T. DeAngelo, Curtis F. Holmes, Ph.D., Arthur J. Lalonde, Richard W. Mott and Susan M. Bratton
- 10.26\*\*\* Form of Pledge Agreement, dated November 1, 1997, between Wilson Greatbatch Technologies, Inc. and each of Edward F. Voboril, Larry T. DeAngelo, Curtis F. Holmes, Ph.D., Arthur J. Lalonde, Richard W. Mott and Susan M. Bratton
- 10.27\*\*\* Stock Purchase Agreement, dated as of July 31, 2000, among Wilson Greatbatch Technologies, Inc., Battery Engineering, Inc. and Hitachi Maxell, Ltd.
- 10.28\*\*\* Stockholders Agreement, dated as of August 7, 2000, among Wilson Greatbatch Technologies, Inc., Hitachi Maxell, Ltd., DLJ Merchant Banking Partners II, L.P., DLJMB Funding II, Inc., DLJ Merchant Banking Partners II-A, L.P., DLJ Diversified Partners, L.P., DLJ Diversified Partners-A, L.P., DLJ Millennium Partners, L.P., DLJ First ESC L.P., DLJ Offshore Partners II, C.V., DLJ EAB Partners, L.P. and UK Investment Plan 1997 Partners
- 10.29\*\*\* Subscription Agreement, dated as of August 7, 2000, between Wilson Greatbatch Technologies, Inc. and Hitachi Maxell, Ltd.
- 10.30\*\*\* Non-Compete Agreement, dated as of August 7, 2000, between Wilson Greatbatch Technologies, Inc. and Hitachi Maxell, Ltd.
- 21.1 List of subsidiaries

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

- \* Previously filed as an exhibit to the company's Registration Statement on Form S-1 (No. 333-37554) filed May 22, 2000 and incorporated by reference herein.
- \*\* Previously filed as an exhibit to the company's Amendment No. 1 to Registration Statement on Form S-1 (No. 333-37554) filed July 3, 2000 and incorporated by reference herein.
- \*\*\* Previously filed as an exhibit to the company's Amendment No. 5 to Registration Statement on Form S-1 (No. 333-37554) filed August 18, 2000 and incorporated by reference herein.
- # Indicates exhibits that are management contracts or compensation plans or arrangements required to be filed pursuant to Item 14(c) of Form 10-K.

(b) REPORTS ON FORM 8-K

No reports on Form 8-K were filed by the company during the fourth quarter of 2000.

SIGNATURES

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

Dated: March 29, 2001

WILSON GREATBATCH TECHNOLOGIES, INC.

By /s/ Edward F. Vobril

-----  
 EDWARD F. VOBORIL  
 PRESIDENT, CHIEF EXECUTIVE  
 OFFICER AND CHAIRMAN

By /s/Arthur J. Lalonde

-----  
 ARTHUR J. LALONDE  
 SENIOR VICE PRESIDENT, FINANCE AND  
 TREASURER (PRINCIPAL FINANCIAL  
 AND ACCOUNTING OFFICER)

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

Signature -----	Title -----	Date ----
/s/Edward F. Voboril ----- Edward F. Voboril	President, Chief Executive Officer, Chairman and Director (Principal Executive Officer)	March 29, 2001
/s/Robert E. Rich, Jr. ----- Robert E. Rich, Jr.	Director	March 29, 2001

/s/Douglas E. Rogers                      Director                                      March 29, 2001

-----  
Douglas E. Rogers

/s/Bill R. Sanford                      Director                                      March 29, 2001

-----  
Bill R. Sanford

/s/Henry Wendt                      Director                                      March 29, 2001

-----  
Henry Wendt

/s/David M. Wittels                      Director                                      March 29, 2001

-----  
David M. Wittels

#### EXHIBIT INDEX

EXHIBIT NUMBER -----	DESCRIPTION -----
3.1*	Amended and Restated Certificate of Incorporation
3.2*	Amended and Restated Bylaws
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10.2*#	1998 Stock Option Plan (including form of "standard" option agreement, form of "special" option agreement and form of "non-standard" option agreement)
10.3*#	Wilson Greatbatch Ltd. Equity Plus Plan Money Purchase Plan
10.4*#	Wilson Greatbatch Ltd. Equity Plus Plan Stock Bonus Plan
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- 10.9\* Amendment No. 1 to Stockholders Agreement, dated as of October 31, 1997, among Wilson Greatbatch Technologies, Inc., DLJ Merchant Banking Partners II, L.P., DLJMB Funding II, Inc., DLJ Merchant Banking Partners II-A, L.P., DLJ Diversified Partners, L.P., DLJ Diversified Partners-A, L.P., DLJ Millennium Partners, L.P., DLJ First ESC L.L.C.,
- DLJ Offshore Partners II, C.V., DLJ EAB Partners, L.P., U.K. Investment Plan 1997 Partners, and the other holders of common stock of Wilson Greatbatch Technologies, Inc. party thereto
- 10.10\* Management Stockholders Agreement, dated as of July 10, 1997, among Wilson Greatbatch Technologies, Inc., DLJ Merchant Banking Partners II, L.P., DLJMB Funding II, Inc., DLJ Merchant Banking Partners II-A, L.P., DLJ Diversified Partners, L.P., DLJ Diversified Partners-A, L.P., DLJ Millennium Partners, L.P., DLJ First ESC L.L.C., DLJ Offshore Partners II, C.V., DLJ EAB Partners, L.P., U.K. Investment Plan 1997 Partners, and the other holders of common stock of Wilson Greatbatch Technologies, Inc. party thereto
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- 10.12\*\*+ Supply Agreement (SVO Batteries), dated as of July 31, 1991, between Wilson Greatbatch Ltd. and Medtronic Inc.
- 10.13\*\*+ Amendment No. 1 to the Supply Agreement (SVO Batteries), dated as of June 3, 1996, between Wilson Greatbatch Ltd. and Medtronic Inc.
- 10.14\*\*+ Amendment No. 2 to the Supply Agreement (SVO Batteries), dated as of March 24, 1997, between Wilson Greatbatch Ltd. And Medtronic Inc.
- 10.15\*\*+ Amendment No. 3 to the Supply Agreement (SVO Batteries), dated as of July 22, 1999, between Wilson Greatbatch Ltd. and Medtronic Inc.
- 10.16\*\*+ Supply Agreement, dated as of February 1, 1999, among Wilson Greatbatch Ltd. and Guidant/CRM
- 10.17\*\*+ Agreement, dated as of April 16, 1997, between Wilson Greatbatch Ltd. and Pacesetter, Inc., a St. Jude Medical Company
- 10.18\*\*+ License Agreement, dated August 8, 1996, between Wilson Greatbatch Ltd. and Evans Capacitor Company
- 10.19\*\*+ Supplier Partnering Agreement, dated as of June 1, 2000, between Wilson Greatbatch Ltd. and Pacesetter, Inc., a St. Jude Medical Company
- 10.20\*\* License Agreement, dated March 16, 1976, between Wilson Greatbatch Ltd. and Medtronic Inc.
- 10.21\*\* Amendment No. 1 to License Agreement, dated July 20, 1976, between Wilson Greatbatch Ltd. and Medtronic Inc.
- 10.22\*\* Stockholders Agreement, dated as of August 23, 1999, among Wilson Greatbatch Technologies, Inc., DLJ Merchant Banking Partners II, L.P., DLJMB Funding II, Inc., DLJ Merchant Banking Partners II-A, L.P., DLJ Diversified Partners, L.P., DLJ Diversified Partners-A, L.P., DLJ

Millennium Partners, L.P., DLJ First ESC L.P., DLJ Offshore Partners II, C.V., DLJ EAB Partners, L.P., UK Investment Plan 1997 Partners and Fred Hittman

- 10.23\*\*\* Form of Subscription Agreement, dated on or about July 17, 1997, between Wilson Greatbatch Technologies, Inc. and each of Edward F. Voboril, Larry T. DeAngelo, Curtis F. Holmes, Ph.D., Arthur J. Lalonde, Richard W. Mott and Susan M. Bratton.
- 10.24\*\*\* Form of Management Subscription Agreement, dated November 1, 1997, between Wilson Greatbatch Technologies, Inc. and each of Edward F. Voboril, Larry T. DeAngelo, Curtis F. Holmes, Ph.D., Arthur J. Lalonde, Richard W. Mott and Susan M. Bratton
- 10.25\*\*\* Form of Promissory Note, dated November 1, 1997, payable to Wilson Greatbatch Technologies, Inc. by each of Edward F. Voboril, Larry T. DeAngelo, Curtis F. Holmes, Ph.D., Arthur J. Lalonde, Richard W. Mott and Susan M. Bratton
- 10.26\*\*\* Form of Pledge Agreement, dated November 1, 1997, between Wilson Greatbatch Technologies, Inc. and each of Edward F. Voboril, Larry T. DeAngelo, Curtis F. Holmes, Ph.D., Arthur J. Lalonde, Richard W. Mott and Susan M. Bratton
- 10.27\*\*\* Stock Purchase Agreement, dated as of July 31, 2000, among Wilson Greatbatch Technologies, Inc., Battery Engineering, Inc. and Hitachi Maxell, Ltd.
- 10.28\*\*\* Stockholders Agreement, dated as of August 7, 2000, among Wilson Greatbatch Technologies, Inc., Hitachi Maxell, Ltd., DLJ Merchant Banking Partners II, L.P., DLJMB Funding II, Inc., DLJ Merchant Banking Partners II-A, L.P., DLJ Diversified Partners, L.P., DLJ Diversified Partners-A, L.P., DLJ Millennium Partners, L.P., DLJ First ESC L.P., DLJ Offshore Partners II, C.V., DLJ EAB Partners, L.P. and UK Investment Plan 1997 Partners
- 10.29\*\*\* Subscription Agreement, dated as of August 7, 2000, between Wilson Greatbatch Technologies, Inc. and Hitachi Maxell, Ltd.
- 10.30\*\*\* Non-Compete Agreement, dated as of August 7, 2000, between Wilson Greatbatch Technologies, Inc. and Hitachi Maxell, Ltd.
- 21.1 List of subsidiaries

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

- \* Previously filed as an exhibit to the company's Registration Statement on Form S-1 (No. 333-37554) filed May 22, 2000 and incorporated by reference herein.
- \*\* Previously filed as an exhibit to the company's Amendment No. 1 to Registration Statement on Form S-1 (No. 333-37554) filed July 3, 2000 and incorporated by reference herein.
- \*\*\* Previously filed as an exhibit to the company's Amendment No. 1 to Registration Statement on Form S-1 (No. 333-37554) filed August 18, 2000 and incorporated by reference herein.

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

## CREDIT AGREEMENT

dated as of

**JANUARY 12, 2001**

by and among

**WILSON GREATBATCH LTD.,**

the LENDERS Party Hereto

and

**MANUFACTURERS AND TRADERS TRUST COMPANY**

as Administrative Agent

**\$60,000,000**

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CREDIT AGREEMENT dated as of January 12, 2001, by and among WILSON GREATBATCH LTD., a New York corporation, the LENDERS party hereto, and MANUFACTURERS AND TRADERS TRUST COMPANY, a New York banking corporation, as Administrative Agent. The Borrower (as hereinafter defined) has requested that the Lenders (as so defined) extend credit to it in an aggregate principal or face amount not exceeding Sixty Million Dollars (\$60,000,000) at any one time outstanding. The Lenders are prepared to extend such credit upon the terms and conditions hereof, and, accordingly, the parties hereto agree as follows:

## ARTICLE I DEFINITIONS

1.1 Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

" Adjusted LIBOR " means, with respect to any ALR Loan for the related Interest Period, the rate *per annum* that is equal to the sum of (a) the Applicable Margin, plus (b) the rate *per annum* obtained by multiplying (i) the LIBOR, by (ii) the Eurocurrency Reserve Rate, all as conclusively determined by the Administrative Agent, such sum to be rounded up, if necessary, to the nearest whole multiple of one hundredth (1/100<sup>th</sup>) of one percent (1%).

" Adjusted Prime Rate " means, for any day, a rate *per annum* equal to the sum of the Prime Rate in effect on such day plus the Applicable Margin in effect for such day.

" Administrative Agent " means M&T, in its capacity as administrative agent for the Lenders hereunder.

" Administrative Agent Account " means an account designated by the Administrative Agent in a notice to the Borrower and the Lenders.

" Administrative Questionnaire " means an Administrative Questionnaire in a form supplied by the Administrative Agent.

" Affiliate " means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

" ALR ", when used in reference to any Loan or Borrowing, indicates that such Loan, or the Loans constituting such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBOR.

" Applicable Margin " means, for any day, (a) with respect to any APR Loan the applicable rate *per annum* set forth below under the caption "APR Spread", (b) with respect to any ALR Loan, the applicable rate *per annum* set forth below under the caption "LIBOR Spread", or (c) with respect to the revolving credit fees payable hereunder, the applicable rate *per annum* set forth below under the caption "Revolving Credit Fee Rate", respectively, based upon the Leverage Ratio as at the end of the most recent fiscal quarter; provided that until March 30, 2001 the "Applicable Margin" shall be the applicable rate *per annum* set forth below in Category 4:

	APR	LIBOR	Revolving
	Spread	Spread	Credit Fee Rate
Category 1: $x > 3.5 : 1.0$	-0.25	2.00	0.375
Category 2: $3.0 : 1.0 < x < 3.5 : 1.0$	-0.50	1.75	0.250
Category 3: $2.5 : 1.0 < x < 3.0 : 1.0$	-0.75	1.50	0.250
Category 4: $x < 2.5 : 1.0$	-1.00	1.25	0.250

For purposes of the foregoing, each change in the Applicable Margin resulting from a change in the Leverage Ratio shall be effective as to any Loans then outstanding or thereafter made during the period commencing on and including the date three (3) Business Days after delivery to the Administrative Agent of the Consolidated financial statements pursuant to Section 5.01(a) or 5.01(b), as applicable, indicating such change and ending on the date immediately preceding the effective date of the next such change; provided that the Applicable Margin shall be deemed to be in Category 1: (i) at any time that an Event of Default has occurred and is continuing; and (ii) if the Borrower fails to deliver the Consolidated financial statements required to be delivered by it pursuant to Section 5.01(a) or 5.01(b), during the period commencing on the expiration date of the time for delivery thereof and ending on the date three (3) Business Days after such Consolidated financial statements are

delivered.

" Applicable Percentage " means, with respect to any Lender, the percentage of the total Commitments represented by such Lender's Commitment as set forth opposite such Lender's name on Schedule I or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Commitment, as applicable. If the Commitments have terminated or expired, each Lender's Applicable Percentage shall be determined based upon the Commitments most recently in effect, after giving effect to any assignments of any Commitments by or among the Lenders.

" APR ", when used in reference to any Loan or Borrowing, indicates that such Loan, or the Loans constituting such Borrowing, are bearing interest at a rate determined by reference to the Adjusted Prime Rate.

" Assignment and Acceptance " means an assignment and acceptance entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 9.04), and accepted by the Administrative Agent, in the form of Exhibit A or any other form approved by the Administrative Agent.

" Availability Period " means, with respect to the Revolving Credit Commitments, the period from and including the Effective Date to but excluding the earlier of the Revolving Credit Commitment Termination Date and the date of termination of the Revolving Credit Commitments.

" Board " means the Board of Governors of the Federal Reserve System of the United States of America.

" Borrower " means Wilson Greatbatch Ltd., a New York corporation.

" Borrower Pledge Agreement " shall have the meaning ascribed to such term in Section 4.01(h), as such agreement may be modified, amended or supplemented from time to time.

" Borrowing " means (a) all APR Loans made, converted or continued on the same date, or (b) all ALR Loans that have the same Interest Period. For the purposes hereof, the Term Loans shall be treated as a single Borrowing.

" Borrowing Request " means a request by the Borrower for a Borrowing of Revolving Credit Loans in accordance with Section 2.03.

" Business Day " means any day (a) that is not a Saturday, Sunday or other day on which commercial banks in Buffalo, New York are authorized or required by law to remain closed, and (b) if such day relates to a borrowing of, a payment or prepayment of principal or of interest on, a continuation or conversion of or into, or the Interest Period for, an ALR Borrowing, or to a notice by the Borrower with respect to any such Borrowing, payment, prepayment, continuation, conversion, or Interest Period, a day that is also a day on which dealings in deposits for United States Dollars are carried out in the London interbank market.

" Capital Lease Obligations " of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

" Cash Interest Expense " of any Person means, for any period, the sum (without duplication and in accordance with GAAP) of the following: (a) all interest in respect of Indebtedness (including the interest component of any payments in respect of Capital Lease Obligations) accrued or capitalized during such period (whether or not actually paid during such period), plus (b) the net amount payable (or minus the net amount receivable) under interest rate Hedging Agreements during such period (whether or not actually paid or received during such period), minus (c) the sum of (i) interest income during such period, plus (ii) all amounts attributable to non-cash items of interest expense, all as determined in accordance with GAAP.

" Change in Control " means any time at which (a) Wilson Greatbatch Technologies, Inc. shall cease to beneficially own in the aggregate one hundred percent (100%) of the total combined voting power of all classes of voting stock of Wilson Greatbatch Intermediate Holdings, Inc., free and clear of all Liens (including, without limitation, pursuant to any voting trust or other agreement to which such shareholder becomes a party or bound by, that in any way limits the right or ability of such shareholder to exercise one hundred percent (100%) of such total combined voting powers); or (b) Wilson Greatbatch Intermediate Holdings, Inc. shall cease to beneficially own in the aggregate one hundred percent (100%) of the total combined voting power of all classes of voting stock of the Borrower, free and clear of all Liens (including, without limitation, pursuant to any voting trust or other agreement to which such shareholder becomes a party or bound by, that in any way limits the right or ability of such shareholder to exercise one hundred percent (100%) of such total combined voting powers).

" Change in Law " means (a) the adoption of any law, rule or regulation after the date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement, or (c) compliance by any Lender or the Issuing Lender (or, for purposes of Section 2.12(b), by any lending office of such Lender or by such Lender's or the Issuing Lender's holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement.

“Code” means the Internal Revenue Code of 1986, as amended from time to time.

“Commitment” means, with respect to a Lender, the commitment of such Lender to make Loans and to acquire participations in Letters of Credit hereunder, expressed as an amount representing the maximum aggregate amount of such Lender’s Revolving Credit Commitment and Term Loan Commitment hereunder. The initial amount of each Lender’s Commitment is set forth on Schedule I, or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Commitment, as applicable. The “Commitments” shall mean the aggregate amounts of all Lenders’ commitments to make Loans and to acquire participations in Letters of Credit hereunder; the initial amount of the Commitments is Sixty Million Dollars (\$60,000,000).

“Compliance Certificate” means a certificate of a Financial Officer as described in Section 5.01(c).

“Consolidated”, “Consolidating” or “Consolidated Basis” means, except as otherwise specifically provided for in this Agreement, the consolidation of the accounts of the Borrower and its Subsidiaries in accordance with GAAP, including principles of consolidation.

“Consolidated EBITDA” means, for any period, the sum of the following on a Consolidated basis: (a) Net Income for such period, plus (b) without duplication and to the extent deducted in computing such Net Income for such period, the sum of (i) Cash Interest Expense, plus (ii) income tax expense, plus (iii) depreciation and amortization expense, plus (iv) amortization or write-off of debt discount and debt issuance costs and commissions, discounts and other fees and charges associated with Indebtedness (including the Loans), plus (v) amortization of intangibles (including, but not limited to, goodwill) and organization costs, plus (vi) any extraordinary, unusual or non-recurring expenses or losses (including, whether or not otherwise includable as a separate item in such Net Income for such period, losses on sales of assets outside of the ordinary course of business), plus (vii) any other non-cash charges, and minus (c) to the extent included in computing such Net Income for such period, the sum of (i) any extraordinary, unusual or nonrecurring income or gains (including, whether or not otherwise includable as a separate item in such Net Income for such period, gains on the sales of assets outside of the ordinary course of business), plus (ii) any other non-cash income. Solely in connection with the determination of Consolidated EBITDA for any period ending on March 30, 2001, the premium (“premium”) payable to the holders of Borrower’s 13% Senior Subordinated Notes due 2007 in the original principal amount of Twenty Five Million Dollars (\$25,000,000) in connection with the repayment of such notes prior to their stated maturity shall be added back to Net Income pursuant to clause (b) of this definition; provided, in no event shall the aggregate amount of the premium to be added back to Net Income in determining Consolidated EBITDA pursuant to this sentence exceed an amount equal to One Million Seven Hundred Thirty Four Thousand Dollars (\$1,734,000).

“Consolidated Fixed Charges” means, for any period, the sum of the following on a Consolidated basis: (a) capital expenditures, plus (b) Cash Interest Expense, plus (c) all regularly scheduled repayments of principal of Indebtedness (including principal repayments of the Term Loan and principal repayments of any Capital Lease Obligations), minus, (d) for such period, the sum of (i) the cost of financing any capital expenditures described in clause (a) of this definition, plus (ii) interest income during such period.

“Consolidated Interest Expense” means, for any period, the sum of the following on a Consolidated basis: (a) all interest in respect of Indebtedness (including the interest component of any payments in respect of Capital Lease Obligations) accrued or capitalized during such period (whether or not actually paid during such period), plus (b) the net amount payable (or minus the net amount receivable) under interest rate Hedging Agreements during such period (whether or not actually paid or received during such period), minus (c) interest income during such period.

“Consolidated Senior Debt” means the difference, on a Consolidated basis, between (a) all Indebtedness created, renewed, assumed or suffered to exist during such period, minus (b) all Subordinated Indebtedness created, renewed, assumed or suffered to exist during such period.

“Control” and “Controlling” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controlled” has the correlative meaning to such terms.

“Credit Exposure” means, with respect to a Lender, at any time, the sum of (a) such Lender’s Revolving Credit Exposure at such time, plus (b) the outstanding principal amount of such Lender’s Term Loan at such time.

“Default” means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

“Disclosed Matters” means the actions, suits and proceedings disclosed in Schedule III and the environmental matters disclosed in Schedule IV.

“Dollars” or “\$” refers to lawful money of the United States of America.

“Effective Date” means the date on which the conditions specified in Section 4.01 are satisfied (or waived in accordance with Section 9.02).

“Environmental Laws” means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding

agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, the management, release or threatened release of any Hazardous Material or to health and safety matters.

“ Environmental Liability ” means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Borrower or any Subsidiary directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment, or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“ ERISA ” means the Employee Retirement Income Security Act of 1974, as amended from time to time.

“ ERISA Affiliate ” means any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under Section 414(b) or (c) of the Code, or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

“ ERISA Event ” means (a) any “reportable event”, as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30-day notice period is waived), (b) the existence with respect to any Plan of an “accumulated funding deficiency” (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived, (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan, (d) the incurrence by the Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan, (e) the receipt by the Borrower or any ERISA Affiliate from the PBGC of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan, (f) the incurrence by the Borrower or any of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Multiemployer Plan, or (g) the receipt by the Borrower or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Borrower or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

“ Event of Default ” has the meaning assigned to such term in ARTICLE VII.

“ Eurocurrency Reserve Rate ” means, for any Interest Period, a fraction (expressed as a decimal) the numerator of which is the number one (1) and the denominator of which is the number one (1) minus the arithmetic mean, taken over each day in such Interest Period, of the aggregate of the maximum reserve percentages established by the Board (including any marginal, special, emergency or supplemental reserves) expressed as a decimal to which the Administrative Agent is subject for “Eurocurrency Liabilities” (as that term is used in Regulation D of the Board). ALR Loans shall be deemed to constitute “Eurocurrency Liabilities” and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The Eurocurrency Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage for “Eurocurrency Liabilities”.

“ Excluded Taxes ” means, with respect to the Administrative Agent, any Lender, the Issuing Lender or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) income or franchise taxes imposed on (or measured by) its net income by the United States of America, or by the jurisdiction under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower is located and (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 2.16(b)), any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement or is attributable to such Foreign Lender’s failure or inability (other than as a result of a Change in Law) to deliver documentation prescribed by applicable law that permits payments made to such Foreign Lender to be made without holding taxes, except to the extent that such Foreign Lender’s assignor (if any) was entitled, at the time of assignment, to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 2.14(a).

“ Federal Funds Effective Rate ” means, for any day, the weighted average (rounded upwards, if necessary, to the next one hundredth (1/100<sup>th</sup>) of one percent (1%)) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next one hundredth (1/100<sup>th</sup>) of one percent (1%)) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

“ Financial Officer ” means the chief financial officer, treasurer or vice president-finance of the Borrower.

“ Fixed Charges Coverage Ratio ” means the ratio of Consolidated EBITDA to Consolidated Fixed Charges as at the end of each fiscal quarter and measured for the four (4) consecutive fiscal quarters ending on the last day of such fiscal quarter; provided, (i) the items contained in clauses (a) and (d) of the definition of Consolidated Fixed Charges as at the end of any fiscal quarter shall be measured for the four (4) consecutive fiscal quarters ending on the last day of such fiscal quarter, and (ii) the items contained in clauses (b) and (c) of the definition of Consolidated Fixed Charges (collectively, the “ debt fixed charges ”) (A) as at the end of first (1<sup>st</sup>) fiscal quarter ending in 2001 shall equal the product of four (4) multiplied by the debt fixed charges as measured solely for such fiscal quarter, (B) as at the end of the second (2<sup>nd</sup>) fiscal quarter ending in 2001 shall equal the product of two (2) multiplied by the debt fixed charges as measured for the two (2) consecutive fiscal

quarters ending on the last day of such fiscal quarter, and (C) as at the end of the third (3<sup>rd</sup>) fiscal quarter ending in 2001 shall equal the product of one and one-third (1.33) multiplied by the debt fixed charges as measured for the three (3) consecutive fiscal quarters ending on the last day of such fiscal quarter. The determination of the Fixed Charges Coverage Ratio shall be based upon the Consolidated financial statements delivered pursuant to Section 5.01(a) or 5.01(b), as applicable.

“Foreign Lender” means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

“GAAP” means generally accepted accounting principles in the United States of America.

“Governmental Authority” means the government of the United States of America, or of any other nation, or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

“Guarantee” of or by any Person (the “guarantor”) means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation; or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or obligation; provided that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

“Guaranty Agreement” shall have the meaning ascribed to such term in Section 4.01(f), as any such agreement may be modified, amended or supplemented from time to time.

“Hazardous Materials” means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyl's, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

“Hedging Agreement” means any interest rate protection agreement, foreign currency exchange agreement, commodity price protection agreement or other interest or currency exchange rate or commodity price hedging arrangement.

“Holdings” means WGL Intermediate Holdings, Inc., a Delaware corporation and the owner of all of the issued and outstanding capital stock of the Borrower.

“Indebtedness” of any Person means, without duplication (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person, (e) all obligations of such Person in respect of the deferred purchase price of property or services (excluding current accounts payable incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the Indebtedness secured thereby has been assumed, (g) all Guarantees by such Person of Indebtedness of others, (h) all Capital Lease Obligations of such Person, (i) all obligations, contingent or otherwise, of such Person as an account party in respect of letters of credit and letters of guaranty, and (j) all obligations, contingent or otherwise, of such Person in respect of bankers' acceptances. The Indebtedness of any Person shall include the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness provide that such Person is not liable therefor.

“Indemnified Taxes” means Taxes other than Excluded Taxes.

“Intellectual Property Security Agreements” shall have the meaning ascribed to such term in Section 4.01(g), as the same may be modified, amended or supplemented from time to time.

“Interest Coverage Ratio” means the ratio of Consolidated EBITDA to Cash Interest Expense as at the end of each fiscal quarter and measured for the four (4) consecutive fiscal quarters ending on the last day of such fiscal quarter; provided, Cash Interest Expense (a) as at the end of first (1<sup>st</sup>) fiscal quarter ending in 2001 shall equal the product of four (4) multiplied by the Cash Interest Expense as measured solely for such fiscal quarter, (b) as at the end of the second (2<sup>nd</sup>) fiscal quarter ending in 2001 shall equal the product of two (2) multiplied by the Cash Interest Expense as measured for the two (2) consecutive fiscal quarters ending on the last day of such fiscal quarter, and (c) as at the end of the third (3<sup>rd</sup>) fiscal quarter ending in 2001 shall equal the product of one and one-third (1.33) multiplied by the Cash Interest Expense as measured for the three (3) consecutive fiscal quarters ending on the last day of such fiscal quarter. The determination of the Interest Coverage Ratio shall be based upon the Consolidated financial statements delivered pursuant to Section 5.01(a) or 5.01(b), as applicable.

“Interest Election Request” means a request by the Borrower to convert a Borrowing to, or continue a Borrowing as an APR Borrowing or ALR Borrowing in accordance with Section 2.06.

“Interest Payment Date” means (a) with respect to any APR Loan, the first day of each calendar month, and (b) with respect to any ALR Loan, the next Business Day immediately following the last day of each Interest Period therefor.

“Interest Period” means, for any ALR Loan or ALR Borrowing, the period commencing on the date of such Loan or Borrowing and ending on the numerically corresponding day in the calendar month that is one (1), two (2), or three (3) months thereafter, or, with respect to such portion of any ALR Loan or Borrowing that is scheduled to be repaid on the Commitment Termination Date, a period of less than one (1) month’s duration commencing on the date of such Loan or Borrowing and ending on the Commitment Termination Date, as specified in the applicable Borrowing Request or Interest Election Request; provided that (i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day, and (ii) any Interest Period (other than an Interest Period pertaining to an ALR Borrowing that ends on the Commitment Termination Date that is permitted to be of less than one (1) month’s duration as provided in this definition) that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Revolving Credit Loan initially shall be the date on which such Loan is made and thereafter shall be the effective date of the most recent conversion or continuation of such Loan as an ALR Loan, and the date of a Borrowing comprising ALR Revolving Credit Loans that have been converted or continued shall be the effective date of the most recent conversion or continuation of such Loans. The date of the Term Loans shall be the date on which such Loans are made.

“Issuing Lender” means M&T, in its capacity as the issuer of Letters of Credit hereunder, and its successors in such capacity as provided in Section 2.04(j).

“LC Disbursement” means a payment made by the Issuing Lender pursuant to a Letter of Credit.

“LC Exposure” means, at any time, the sum of (a) the aggregate undrawn amounts of all outstanding Letters of Credit at such time, plus (b) the aggregate amount of all LC Disbursements that have not yet been reimbursed by or on behalf of the Borrower at such time. The LC Exposure of any Lender at any time shall be its Applicable Percentage of the total LC Exposure at such time.

“Lenders” means the Persons listed on Schedule I and any other Person that shall have become a party hereto pursuant to an Assignment and Acceptance, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Acceptance.

“Letter of Credit” means any standby letter of credit issued pursuant to this Agreement.

“Letter of Credit Documents” means, with respect to any Letter of Credit, collectively, any application therefor and any other agreements, instruments, guarantees or other documents (whether general in application or applicable only to such Letter of Credit) governing or providing for (a) the rights and obligations of the parties concerned or at risk with respect to such Letter of Credit, or (b) any collateral security for any of such obligations, each as the same may be modified and supplemented and in effect from time to time.

“Leverage Ratio” means the ratio of Consolidated Senior Debt as at the end of each fiscal quarter to Consolidated EBITDA as at the end of each fiscal quarter and measured for the four (4) consecutive fiscal quarters ending on the last day of such fiscal quarter. The determination of the Leverage Ratio shall be based upon the Consolidated financial statements delivered pursuant to Section 5.01(a) or 5.01(b), as applicable.

“LIBOR” means for any Interest Period, the *per annum* rate, as determined by the Administrative Agent from any broker, quoting service or commonly available source utilized by the Administrative Agent, at which United States Dollar deposits in immediately available funds are offered to leading banks in the London interbank deposit market at 11:00 a.m. Greenwich Mean Time (or as soon thereafter as practicable) on the Quotation Date for delivery on the first day of such Interest Period and for a period equal to such Interest Period.

“Lien” means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset, and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

“Loan Documents” means, collectively, this Agreement, the Notes, the Letter of Credit Documents, the Guaranty Agreements, the Security Agreements, Borrower Pledge Agreement, the Intellectual Property Security Agreements and all other agreements, documents, certificates and instruments executed and delivered by the Borrower, any Subsidiary of the Borrower, Technologies, Holdings, and any other Person pursuant to the terms hereof to the Administrative Agent and/or the Lenders in connection with the Transactions, as each of such Loan Documents may be modified, amended or supplemented from time to time.

“Loans” means the Revolving Credit Loans and/or the Term Loans made by the Lenders to the Borrower pursuant to this Agreement.

“Local Time” means the local time in Buffalo, New York.

“M&T” means Manufacturers and Traders Trust Company.

“Margin Stock” means "margin stock" within the meaning of Regulations T, U and X of the Board.

“Material Adverse Effect” means a material adverse effect on (a) the business, assets, operations or condition, financial or otherwise, of the Borrower and its Subsidiaries taken as a whole, (b) the ability of the Borrower to perform any of its obligations under this Agreement or any of the other Loan Documents, or (c) the ability of the Lenders to enforce or assert any right or interest granted to the Lenders under this Agreement or any of the other Loan Documents.

“Maturity Date” means, with respect to the Term Loans and the Term Note, January 1, 2006.

“Multiemployer Plan” means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

“Net Income” of any Person, means, with respect to any period, all amounts which, in conformity with GAAP, would be included under net income on an income statement of such Person for such period.

“Note” and “Notes” means, individually and collectively, the Revolving Credit Note and the Term Note.

“Other Taxes” means any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made under any Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, any Loan Document.

“Parent Guarantor” and “Parent Guarantors” means, individually and collectively, Technologies, Holdings and each Person in relation to which the Borrower or any Subsidiary of the Borrower becomes a Subsidiary and that has executed and delivered to the Administrative Agent a Guaranty Agreement as provided in Section 4.01 or Section 5.05.

“PBGC” means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

“Permitted Investments” means: (a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within one year from the date of acquisition thereof; (b) investments in commercial paper maturing within two hundred seventy (270) days from the date of acquisition thereof and having, at such date of acquisition, the highest credit rating obtainable from Standard & Poor’s Ratings Services or Moody’s Investors Services, Inc; (c) investments in certificates of deposit, banker’s acceptances and time deposits maturing within one year from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any domestic office of any commercial bank organized under the laws of the United States of America or any State thereof which has a combined capital and surplus and undivided profits of not less than Two Hundred Fifty Million Dollars (\$250,000,000); and (d) fully collateralized repurchase agreements with a term of not more than thirty (30) days for securities described in clause (a) of this definition and entered into with a financial institution satisfying the criteria described in clause (c) of this definition.

“Person” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

“Plan” means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the Borrower or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an “employer” as defined in Section 3(5) of ERISA.

“Prime Rate” means the rate of interest per annum publicly announced from time to time by M&T as its prime rate in effect at its principal office in Buffalo, New York; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

“Quotation Date” means, for any Interest Period, the date that is two (2) Business Days prior to the first day of such Interest Period.

“Quarterly Dates” means the last Business Day of March, June, September and December in each year, the first of which shall be the first such day after the date hereof.

“Register” has the meaning set forth in Section 9.04.

“Related Parties” means, with respect to any specified Person, such Person’s Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person’s Affiliates.

“Required Lenders” means, at any time, Lenders having Credit Exposures and unused Revolving Credit Commitments representing greater

than fifty percent (50%) of the sum of the total Credit Exposures and unused Revolving Credit Commitments at such time.

“Restricted Payment” means (a) any dividend or other distribution (whether in cash, securities or other property) with respect to any shares of any class of capital stock of the Borrower or any of its Subsidiaries, or (b) any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such shares of capital stock of the Borrower or any option, warrant or other right to acquire any such shares of capital stock of the Borrower, or (c) any dividend, distribution or other payment by the Borrower or any of its Subsidiaries to any shareholder of the Borrower or such Subsidiary (other than the Borrower), or to any Affiliate of the Borrower, any of its Subsidiaries, or to such shareholder, whether in cash, securities or other property.

“Revolving Credit Commitment” means, with respect to a Lender, the commitment of such Lender to make Revolving Credit Loans and to acquire participations in Letters of Credit hereunder, expressed as an amount representing the maximum aggregate amount of such Lender’s Revolving Credit Exposure hereunder and its Applicable Percentage of the unused principal amount of the Revolving Credit Note, as such commitment may be (a) reduced from time to time pursuant to Section 2.07, and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender’s Revolving Credit Commitment is set forth on Schedule I, or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Commitment, as applicable. The “Revolving Credit Commitments” shall mean the aggregate amounts of all Lenders’ commitments to make Revolving Credit Loans and to acquire participations in Letters of Credit hereunder; the initial amount of the Revolving Credit Commitments is Twenty Million Dollars (\$20,000,000).

“Revolving Credit Commitment Termination Date” means, with respect to the Revolving Credit Loans, Revolving Credit Note and the Letters of Credit, January 1, 2006.

“Revolving Credit Exposure” means, with respect to any Lender at any time, the sum of the outstanding principal amount of such Lender’s Revolving Credit Loans and its LC Exposure at such time.

“Revolving Credit Facility” means the credit extended to the Borrower as described in Section 2.02.

“Revolving Credit Loan” and “Revolving Credit Loans” means, individually and collectively, each Loan made by the Lenders pursuant to Section 2.02.

“Revolving Credit Note” means the Note executed and delivered by the Borrower to the Administrative Agent pursuant to Section 2.02 and in the form of Exhibit E hereto, and all substitutions and replacements thereof.

“Security Agreement” shall have the meaning ascribed to such term in Section 4.01(g), as any such agreement may be modified, amended or supplemented from time to time.

“Senior Executive Officer” with respect to any Person, means the Chief Executive Officer, President or Executive Vice President of such Person.

“Subordinated Indebtedness” means, with respect to the Borrower and its Subsidiaries, all unsecured Indebtedness that is subordinated in right of payment to the payment of the Loans and is otherwise junior to the rights of the Lenders with respect to the Loans in all respects.

“Subsidiary” means, with respect to any Person (the “parent”) at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent’s consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than fifty percent (50%) of the equity or more than fifty percent (50%) of the ordinary voting power or, in the case of a partnership, more than fifty percent (50%) of the general partnership interests are, as of such date, owned, controlled or held, or (b) that is, as of such date, otherwise Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent. Unless otherwise specified, “Subsidiary” means a Subsidiary of the Borrower.

“Subsidiary Guarantor” and “Subsidiary Guarantors” means, individually and collectively, each Subsidiary of the Borrower or of any Subsidiary of the Borrower that has executed and delivered to the Administrative Agent the Loan Documents as provided in Section 4.01 or Section 5.04.

“Technologies” means Wilson Greatbatch Technologies, Inc., a Delaware corporation and the owner of all of the issued and outstanding capital stock of Holdings.

“Taxes” means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

“Term Loan” and “Term Loans” means, individually and collectively, each Term Loan made by a Lender pursuant to Section 2.01.

“Term Loan Commitment” means, with respect to a Lender, the commitment of such Lender to make a Term Loan hereunder on the Effective Date, expressed as an amount representing the maximum aggregate amount of such Lender’s Applicable Percentage of the Term Note as such commitment may be reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The amount of each Lender’s Term Loan Commitment is set forth on Schedule I, or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Commitment, as applicable. The “Term Loan Commitments” shall mean the aggregate amounts of all Lenders’ commitments to make Term Loans hereunder on the Effective Date; the aggregate amount of the Term Loan Commitments is Forty Million Dollars (\$40,000,000).

“Term Loan Facility” means the credit extended to the Borrower as described in Section 2.01.

“Term Note” means the Note executed and delivered by the Borrower to the Administrative Agent pursuant to Section 2.01 and in the form of Exhibit D hereto, and all substitutions and replacements thereof.

“Transactions” means the execution, delivery and performance by the Borrower of this Agreement and the other Loan Documents, the borrowing of Loans, the use of the proceeds thereof and the issuance of Letters of Credit hereunder.

“Type”, when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans constituting such Borrowing, is determined by reference to the Adjusted LIBOR or the Adjusted Prime Rate, and, accordingly, whether such Loan or Borrowing is an ALR Loan or Borrowing or APR Loan or Borrowing, respectively.

“Withdrawal Liability” means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

## **1.2 Terms Generally.**

The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation”. The word “will” shall be construed to have the same meaning and effect as the word “shall”. Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (c) the words “herein”, “hereof” and “hereunder”, and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

## **1.3 Accounting Terms; GAAP.**

(a) GAAP: Changes in Accounting Terms Treatment. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

(b) Changes in Fiscal Periods. To enable the ready and consistent determination of compliance with the covenants set forth in Section ARTICLE VI, the Borrower will not change the last day of its fiscal year from the Friday nearest to December 31 of each year (whether or not such last day occurs in the same calendar year or the next following calendar year), or the last days of the first three fiscal quarters in each of their fiscal years from the Friday closest to March 31, June 30 or September 30 of each year, respectively. By way of illustration of the foregoing, fiscal year 2000 will end on December 29, 2000.

(c) Pro Forma Treatment of Acquisitions. For the purposes of computing Consolidated EBITDA, Consolidated Fixed Charges, Cash Interest Expense, Consolidated Senior Debt, the Fixed Charges Coverage Ratio, the Interest Coverage Ratio and the Leverage Ratio (and any financial calculations required to be made or included within such amounts or ratios) as of the end of any measurement period, in the event any Person (an “acquired Person”) is acquired by the Borrower or any of its Subsidiaries after the beginning of and prior to the end of such measurement period, all components of such amounts or ratios (other than capital expenditures as determined in accordance with GAAP) shall be computed on a *pro forma* basis as if such acquisition has occurred on the first day of such measurement period, and shall, without duplication, and to the extent applicable:

(i) include, for purposes of calculating Consolidated EBITDA, the actual items of income and expense of the acquired Person as measured for the four (4) consecutive fiscal quarters of such acquired Person ending on the date of its acquisition by the Borrower or such

Subsidiary;

(ii) include, for purposes of calculating Consolidated Fixed Charges, the actual items of fixed charges of the acquired Person as measured for the four (4) consecutive fiscal quarters of such acquired Person ending on the date of its acquisition by the Borrower or such Subsidiary;

(iii) include, for purposes of determining Cash Interest Expense, the actual items of cash interest expense of the acquired Person as measured for the four (4) consecutive fiscal quarters of such acquired Person ending on the date of its acquisition by the Borrower or such Subsidiary;

(iv) include, for the purposes of determining Consolidated Senior Debt, the actual amount of Indebtedness of the acquired entity as at the date of its acquisition by the Borrower or such Subsidiary;

(v) exclude any Indebtedness of the acquired Person that has been retired or discharged on or prior to the date the Borrower or such Subsidiary acquired such acquired Person (the “acquisition date”);

(vi) calculate interest payable during such measurement period with respect to any Indebtedness of such acquired Person at a rate of interest equal to the actual weighted average interest rate in effect for the Loans hereunder on the date of such acquisition; and

(vii) include all cost savings to be realized by the Borrower or such Subsidiary in connection with such acquisition during the twelve (12) month period ending on the first (1<sup>st</sup>) anniversary of the acquisition date, as determined in good faith by the Borrower or such Subsidiary and set forth in the relevant Compliance Certificate delivered by the Financial Officer of the Borrower for such measurement period (collectively, the “projected cost savings”); provided, however, in computing each such amount or ratio (A) no cost savings which would accrue or occur after the first (1<sup>st</sup>) year anniversary of the acquisition date shall be considered, and (B) the actual cost savings realized by the Borrower or such Subsidiary (if any) during each measurement period commencing after the end of the measurement period containing the acquisition date, rather than the projected cost savings expected to be realized during such measurement period, shall (to the extent applicable) be used in computing each such amount or ratio as of the end of such measurement period.

## ARTICLE II THE CREDIT FACILITIES

### 2.1 Term Loan Facilities.

(a) Term Loan Commitments. Subject to the terms and conditions set forth herein, each Lender severally agrees to lend to the Borrower on the Effective Date an amount equal to such Lender’s Term Loan Commitment set forth opposite such Lender’s name on Schedule I or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Commitment, as applicable.

(b) Obligations of Lenders for Term Loans. Each Term Loan shall be made on the Effective Date by the Lenders ratably in accordance with their respective Applicable Percentages of the Term Loan Commitments. The failure of any Lender to make any Term Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided that the Term Loan Commitments of the Lenders are several and no Lender shall be responsible for any other Lender’s failure to make its Term Loan as required hereunder. The Term Loans shall be repaid and shall bear interest as described herein and as described in the Term Note.

(c) Type of Borrowing. On the Effective Date the Term Loans shall consist of one Borrowing entirely of APR Loans or of ALR Loans as the Borrower may request in writing and delivered to the Administrative Agent on or prior to the Effective Date. Subject to the provisions of Section 2.11, the Borrower may elect to change the Type of the Borrowing constituting all of the Term Loans after the Effective Date in accordance with the provisions of Section 2.06. Each such election by the Borrower to change the Type of the Borrowing constituting the Term Loans shall apply to the entire amount of the Term Loans then outstanding.

(d) Term Note. The Term Loans, and the Borrower’s obligation to repay the Term Loans and interest thereon, shall be evidenced by the Term Note executed and delivered to the Administrative Agent on the Effective Date, and shall be in the form of Exhibit D hereto. Interest on the outstanding and unpaid principal amount of the Term Loans will be payable from the date of the Term Loans as hereinafter provided. The principal amounts of the Term Loans shall be repaid in nineteen (19) consecutive quarterly installments on the first day of each calendar quarter commencing April 1, 2001 with subsequent installments being due on the first day of each calendar quarter thereafter, and in one final installment due and payable on the Maturity Date in the amount necessary to repay in full the unpaid principal amount of the Term Note. The amount of each quarterly installment repayment of principal of the Term Loans shall be as follows:

Payment Date	2001	2002	2003	2004	2005	2006
January 1	N/A	\$1,000,000	\$1,500,000	\$2,000,000	\$2,500,000	\$3,000,000
April 1	\$1,000,000	\$1,500,000	\$2,000,000	\$2,500,000	\$3,000,000	N/A
July 1	\$1,000,000	\$1,500,000	\$2,000,000	\$2,500,000	\$3,000,000	N/A

(e) Records of the Administrative Agent. The Administrative Agent shall set forth on a schedule attached to and made a part of the Term Note or on any separate similar schedule or on any continuation of any such schedule (including, but not limited to, any similar schedule maintained in computerized records) annotations evidencing (i) the date and principal amount of each Term Loan, (ii) the aggregate of all principal amounts of all Term Loans, (iii) the amounts of any repayments of principal of the Term Loans, (iv) the outstanding principal amount of the Term Note, (v) the applicable Interest Period for the Term Loans to the extent that the Borrower has elected to convert or continue the Term Loans as ALR Loans, (vi) the Applicable Margin and resulting interest rate for the Term Loans, (vii) the aggregate amounts of all payments under or repayments of principal of the Term Note, and (viii) and such other information relating to the Term Note, the Term Loans, principal amounts thereof, interest paid or payable thereon, or otherwise as the Administrative Agent shall deem appropriate in the Administrative Agent's sole discretion. Each such annotation shall, in the absence of manifest error, be conclusive and binding upon the Borrower. No failure of the Administrative Agent to make and no error by the Administrative Agent in making any annotation on such attached schedule or any such similar schedule shall affect the obligations of the Borrower to repay the principal amount of each Term Loan and the outstanding principal amount of the Term Note, the obligation of the Borrower to pay interest on the outstanding principal amount of each Term Loan and on the outstanding principal amount of the Term Note, or any other obligation of the Borrower to the Administrative Agent or any Lender pursuant to this Agreement.

## 2.2 Revolving Credit Facilities.

(a) Revolving Credit Commitments. Each Lender severally agrees to make Revolving Credit Loans to the Borrower from time to time during the Availability Period in an aggregate principal amount that will not result in (i) such Lender's Revolving Credit Exposure exceeding such Lender's Revolving Credit Commitment, or (ii) the total Revolving Credit Exposures exceeding the total Revolving Credit Commitments. Each Lender's Revolving Credit Commitment is set forth opposite such Lender's name on Schedule I or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Commitment, as applicable. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Revolving Credit Loans.

(b) Obligations of Lenders for Revolving Credit Loans. Each Revolving Credit Loan shall be made on the date of such Borrowing by the Lenders ratably in accordance with their respective Applicable Percentages. The failure of any Lender to make any Revolving Credit Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided that the Revolving Credit Commitments of the Lenders are several and no Lender shall be responsible for any other Lender's failure to make Revolving Credit Loans as required hereunder.

(c) Type of Revolving Credit Loans. Each Borrowing of Revolving Credit Loans shall be constituted entirely of APR Loans or of ALR Loans as the Borrower may request in accordance herewith. Subject to the provisions of Section 2.11, the Borrower may elect to change the Type of any Borrowing of Revolving Credit Loans after the Effective Date in accordance with the provisions of Section 2.06.

(d) Minimum Amounts; Limitation on Number of Revolving Credit Borrowings. Each ALR Revolving Credit Borrowing shall be in an aggregate amount equal to Five Hundred Thousand Dollars (\$500,000) or a larger multiple of Two Hundred Fifty Thousand Dollars (\$250,000). Each APR Revolving Credit Borrowing shall be in an aggregate amount equal to Five Hundred Thousand Dollars (\$500,000) or a larger multiple of Two Hundred Fifty Thousand Dollars (\$250,000); provided that an APR Revolving Credit Borrowing may be in an aggregate amount that is equal to the entire unused balance of the total Revolving Credit Commitments or that is required to finance the reimbursement of an LC Disbursement as contemplated by Section 2.04(f). Notwithstanding anything to the contrary herein, at no point in time shall more than six (6) ALR Revolving Credit Borrowings be outstanding, and any election by the Borrower pursuant to Section 2.06 to continue or convert any Revolving Credit Borrowing as or to, as the case may be, an ALR Borrowing in excess of this limit shall be treated by the Administrative Agent as an election by the Borrower to continue or convert such Borrowing as or to, as the case may be, an APR Borrowing.

(e) Revolving Credit Note. The Revolving Credit Loans, and the Borrower's obligation to repay the Revolving Credit Loans and interest thereon, shall be evidenced by the Revolving Credit Note executed and delivered to the Administrative Agent on the Effective Date, and shall be in the form of Exhibit E hereto. Interest on the outstanding and unpaid principal amount of the Revolving Credit Note will be payable from the date of the Revolving Credit Note as hereinafter provided, and the entire unpaid principal amount of the Revolving Credit Note shall be repaid on the Revolving Credit Commitment Termination Date.

(f) Records of the Administrative Agent. The Administrative Agent shall set forth on a schedule attached to and made a part of the Revolving Credit Note or on any separate similar schedule or on any continuation of any such schedule (including, but not limited to, any similar schedule maintained in computerized records) annotations evidencing (i) the date and principal amount of each Revolving Credit Loan, (ii) the aggregate of all principal amounts of all Revolving Credit Loans, (iii) the amounts of any repayments of principal of the Revolving Credit Loans, (iv) the outstanding principal amount of the Revolving Credit Note, (v) the applicable Interest Period for each Borrowing that is an ALR Borrowing (vi) the Applicable Margin and resulting interest rate for each Borrowing of Revolving Credit Loans, (vii) the aggregate amounts of all payments under or repayments of principal of the Revolving Credit Note, and (viii) and such other information relating to the Revolving Credit Note, the Revolving Credit Loans, principal amounts thereof, interest paid or payable thereon, or otherwise as the Administrative Agent shall deem appropriate in the Administrative Agent's sole discretion. Each such annotation shall, in the absence of manifest error, be conclusive and binding upon the Borrower. No failure of the Administrative Agent to make and no error by the Administrative Agent in making any annotation on such attached schedule or any such similar schedule shall affect the obligations of the Borrower to repay the principal amount of each Revolving Credit Loan and the outstanding principal amount of the Revolving Credit Note, the

obligation of the Borrower to pay interest on the outstanding principal amount of each Revolving Credit Loan and on the outstanding principal amount of the Revolving Credit Note, or any other obligation of the Borrower to the Administrative Agent or any Lender pursuant to this Agreement.

### **2.3 Requests for Revolving Credit Borrowings.**

(a) Notice by the Borrower. To request a Revolving Credit Borrowing, the Borrower shall notify the Administrative Agent of such request by telephone (i) in the case of an ALR Borrowing, not later than 11:00 a.m., Local Time, three (3) Business Days before the date of the proposed Borrowing, or (ii) in the case of an APR Borrowing (including an APR Borrowing to finance the reimbursement of an LC Disbursement as contemplated by Section 2.04(f)), not later than 11:00 a.m., Local Time, on the date of the proposed Borrowing. Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery or teletype to the Administrative Agent of a written Borrowing Request in the form of Exhibit E hereto and signed by the Borrower on or prior to the date of such Borrowing as required pursuant to the foregoing.

(b) Content of Borrowing Requests. Each telephonic and written Borrowing Request shall specify the following information in compliance with Section 2.02:

- (i) the aggregate amount of the requested Borrowing;
- (ii) the date of such Borrowing, which shall be a Business Day;
- (iii) whether such Borrowing is to be an APR Borrowing or an ALR Borrowing; and

(iv) in the case of an ALR Borrowing, the Interest Period therefor, which shall be a period contemplated by the definition of the term "Interest Period" and permitted under Section 2.06(f).

(c) Notice by the Administrative Agent to the Lenders. Promptly following receipt of a Borrowing Request in accordance with this Section, the Administrative Agent shall advise each Lender of the details thereof and of the amount of such Lender's Revolving Credit Loan to be made as part of the requested Borrowing.

(d) Failure to Elect. If the Borrower fails to elect the Type of a requested Revolving Credit Borrowing, then the requested Borrowing shall be an APR Borrowing. If no Interest Period is specified with respect to any requested ALR Revolving Credit Borrowing, the requested Borrowing shall be made instead as an APR Borrowing.

### **2.4 Letters of Credit.**

(a) General. Subject to the terms and conditions set forth herein, in addition to the Revolving Credit Loans provided for in Section 2.02, the Borrower may request the Issuing Lender to issue, at any time and from time to time during the Availability Period, Letters of Credit for its own account in such form as is acceptable to the Issuing Lender in its reasonable determination. Letters of Credit issued hereunder shall constitute utilization of the Revolving Credit Commitments.

(b) Notice of Issuance; Amendment; Renewal or Extension. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall hand deliver or teletype (or transmit by electronic communication, if arrangements for doing so have been approved by the Issuing Lender) to the Issuing Lender and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (in compliance with paragraph (d) of this Section), the amount of such Letter of Credit, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. The Borrower also shall submit a letter of credit application on the Issuing Lender's standard form in connection with any request for a Letter of Credit. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, the Issuing Lender relating to any Letter of Credit, the terms and conditions of this Agreement shall control.

(c) Limitations on Amounts. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension (i) the aggregate LC Exposure of the Issuing Lender (determined for these purposes without giving effect to the participations therein of the Lenders pursuant to paragraph (e) of this Section) shall not exceed Ten Million Dollars (\$10,000,000), and (ii) the total Revolving Credit Exposures shall not exceed the total Revolving Credit Commitments.

(d) Expiration Date. Each Letter of Credit shall expire at or prior to the close of business on the earlier of (i) the date which is twelve (12) months after the date of the issuance of such Letter of Credit (or, in the case of any renewal or extension thereof, twelve (12) months after the then current expiration date of such Letter of Credit, so long as such renewal or extension occurs within three (3) months of such then-current expiration date), and (ii) the date that is five (5) Business Days prior to the Revolving Credit Commitment Termination Date.

(e) Participations. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) by the Issuing Lender, and without any further action on the part of the Issuing Lender or the Lenders, the Issuing Lender hereby grants to each Lender, and each Lender hereby acquires from the Issuing Lender, a participation in such Letter of Credit equal to such Lender's Applicable Percentage of the aggregate amount available to be drawn under such Letter of Credit. Each Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Commitments. In consideration and in furtherance of the foregoing, each Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for account of the Issuing Lender, such Lender's Applicable Percentage of each LC Disbursement made by the Issuing Lender promptly upon the request of the Issuing Lender at any time from the time of such LC Disbursement until such LC Disbursement is reimbursed by the Borrower or at any time after any reimbursement payment is required to be refunded to the Borrower for any reason. Such payment shall be made without any offset, abatement, withholding or reduction whatsoever. Each such payment shall be made in the same manner as provided in Section 2.05 with respect to Loans made by such Lender (and Section 2.05 shall apply, mutatis mutandis, to the payment obligations of the Lenders), and the Administrative Agent shall promptly pay to the Issuing Lender the amounts so received by it from the Lenders. Promptly following receipt by the Administrative Agent of any payment from the Borrower pursuant to the next following paragraph, the Administrative Agent shall distribute such payment to the Issuing Lender or, to the extent that the Lenders have made payments pursuant to this paragraph to reimburse the Issuing Lender, then to such Lenders and the Issuing Lender as their interests may appear. Any payment made by a Lender pursuant to this paragraph to reimburse the Issuing Lender for any LC Disbursement shall not constitute a Loan and shall not relieve the Borrower of its obligation to reimburse such LC Disbursement.

(f) Reimbursement. If the Issuing Lender shall make any LC Disbursement in respect of a Letter of Credit, the Borrower shall reimburse the Issuing Lender in respect of such LC Disbursement by paying to the Administrative Agent an amount equal to such LC Disbursement not later than 12:00 noon, Local Time, on (i) the Business Day that the Borrower receives notice of such LC Disbursement, if such notice is received prior to 10:00 a.m., Local Time, or (ii) the Business Day immediately following the day that the Borrower receives such notice, if such notice is not received prior to such time, provided that the Borrower may, subject to the conditions to borrowing set forth herein, request in accordance with Section 2.03 that such payment be financed with an APR Borrowing in an equivalent amount and, to the extent so financed, the Borrower's obligation to make such payment shall be discharged and replaced by the resulting APR Borrowing. If the Borrower fails to make such payment when due, the Administrative Agent shall notify each Lender of the applicable LC Disbursement, the payment then due from the Borrower in respect thereof and such Lender's Applicable Percentage thereof.

(g) Obligations Absolute. The Borrower's obligation to reimburse LC Disbursements as provided in paragraph (f) of this Section shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of (i) any lack of validity or enforceability of any Letter of Credit, or any term or provision therein, (ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect, (iii) payment by the Issuing Lender under a Letter of Credit against presentation of a draft or other document that does not comply strictly with the terms of such Letter of Credit, and (iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of the Borrower's obligations hereunder. Neither the Administrative Agent, the Lenders nor the Issuing Lender, nor any of their Related Parties, shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit by the Issuing Lender or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the Issuing Lender; provided that the foregoing shall not be construed to excuse the Issuing Lender from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by the Issuing Lender's gross negligence or willful misconduct when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto expressly agree that:

(i) the Issuing Lender may accept documents that appear on their face to be in substantial compliance with the terms of a Letter of Credit without responsibility for further investigation, regardless of any notice or information to the contrary, and may make payment upon presentation of documents that appear on their face to be in substantial compliance with the terms of such Letter of Credit;

(ii) the Issuing Lender shall have the right, in its sole discretion, to decline to accept such documents and to make such payment if such documents are not in strict compliance with the terms of such Letter of Credit; and

(iii) this sentence shall establish the standard of care to be exercised by the Issuing Lender when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof (and the parties hereto hereby waive, to the extent permitted by applicable law, any standard of care inconsistent with the foregoing).

(h) Disbursement Procedures. The Issuing Lender shall, within a reasonable time following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. The Issuing Lender shall promptly after such examination notify the Administrative Agent and the Borrower by telephone (confirmed by telecopy) of such demand for payment and whether the Issuing Lender has made or will make an LC Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse the Issuing Lender and the Lenders with respect to any such LC Disbursement.

(i) Interim Interest. If the Issuing Lender shall make any LC Disbursement, then, unless the Borrower shall reimburse such LC Disbursement in full on the date such LC Disbursement is made, the unpaid amount thereof shall bear interest, for each day from and including

the date such LC Disbursement is made to but excluding the date that the Borrower reimburses such LC Disbursement, at the rate *per annum* then applicable to APR Loans; provided that, if the Borrower fails to reimburse such LC Disbursement when due pursuant to paragraph (f) of this Section, then Section 2.10(c) shall apply. Interest accrued pursuant to this paragraph shall be for account of the Issuing Lender, except that interest accrued on and after the date of payment by any Lender pursuant to paragraph (f) of this Section to reimburse the Issuing Lender shall be for account of such Lender to the extent of such payment.

(j) Replacement of the Issuing Lender. The Issuing Lender may be replaced at any time by written agreement among the Borrower, the Administrative Agent, the replaced Issuing Lender and the successor Issuing Lender. The Administrative Agent shall notify the Lenders of any such replacement of the Issuing Lender. At the time any such replacement shall become effective, the Borrower shall pay all unpaid fees accrued for account of the replaced Issuing Lender pursuant to Section 2.09(b). From and after the effective date of any such replacement, (i) the successor Issuing Lender shall have all the rights and obligations of the replaced Issuing Lender under this Agreement with respect to Letters of Credit to be issued thereafter, and (ii) references herein to the term "Issuing Lender" shall be deemed to refer to such successor or to any previous Issuing Lender, or to such successor and all previous Issuing Lenders, as the context shall require. After the replacement of an Issuing Lender hereunder, the replaced Issuing Lender shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Lender under this Agreement with respect to Letters of Credit issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit.

(k) Cash Collateralization. If either (i) an Event of Default shall occur and be continuing and the Borrower receives notice from the Administrative Agent or the Required Lenders (or, if the maturity of the Loans has been accelerated, Lenders with LC Exposure representing greater than fifty percent (50%) of the total LC Exposure) demanding the deposit of cash collateral pursuant to this paragraph, or (ii) the Borrower shall be required to provide cover for LC Exposure pursuant to Section 2.08, the Borrower shall immediately deposit into an account established and maintained on the books and records of the Administrative Agent, which account may be a "securities account" (within the meaning of Section 8-501 of the Uniform Commercial Code as in effect in the State of New York), in the name of the Administrative Agent and for the benefit of the Lenders, an amount in cash equal to, in the case of an Event of Default, the LC Exposure as of such date plus any accrued and unpaid interest thereon and, in the case of cover pursuant to Section 2.08, the amount required under Section 2.08; provided that the obligation to deposit such cash collateral shall become effective immediately, and such deposit shall become immediately due and payable, without demand or other notice of any kind, upon the occurrence of any Event of Default with respect to the Borrower described in clause (i) or (j) of ARTICLE VII. Such deposit shall be held by the Administrative Agent as collateral for the LC Exposure under this Agreement, and for this purpose the Borrower hereby grants a security interest to the Administrative Agent for the benefit of the Lenders in such collateral account and in any financial assets (as defined in the Uniform Commercial Code as in effect in the State of New York) or other property held therein.

## 2.5 Funding of Borrowings.

(a) Funding by Lenders. Each Lender shall make each Term Loan required to be made by it hereunder on the Effective Date by wire transfer of immediately available funds by 12:00 noon, Local Time, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lender. Each Lender shall make each Revolving Credit Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds by 12:00 noon, Local Time, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders. The Administrative Agent will make such Revolving Credit Loans available to the Borrower by promptly crediting the amounts so received, in like funds, to an account of the Borrower designated by the Borrower in the applicable Borrowing Request; provided that APR Borrowings made to finance the reimbursement of an LC Disbursement as provided in Section 2.04(f) shall be remitted by the Administrative Agent to the Issuing Lender.

(b) Presumption by the Administrative Agent. Unless the Administrative Agent shall have received notice from a Lender at least one (1) Business Day prior to the proposed date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not so notified the Administrative Agent and has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the Federal Funds Effective Rate, or (ii) in the case of the Borrower, the interest rate then applicable to APR Loans. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing.

## 2.6 Interest Elections.

(a) Elections by the Borrower for Borrowings. The Loans constituting each Borrowing initially shall be of the Type specified by the Borrower (i) to the Administrative Agent with respect to the Term Loans pursuant to Section 2.01, and (ii) with respect to any Revolving Credit Borrowing, as specified by the Borrower in the applicable Borrowing Request, and (iii) in the case of an ALR Borrowing, shall have the Interest Period specified by the Borrower to the Administrative Agent pursuant to Section 2.01 or in such Borrowing Request, respectively. Thereafter, the Borrower may elect to convert such Borrowing to a Borrowing of a different Type or to continue such Borrowing as a Borrowing of the same Type and, in the case of a ALR Borrowing, may elect the Interest Period therefor, all as provided in this Section, and in form attached hereto as Exhibit F1 with respect to the Term Loans, (an "Interest Election Request for Term Loan Borrowing"), and in form attached hereto as Exhibit F2 with respect to a Revolving Credit Borrowing (an "Interest Election Request for Revolving Credit Borrowing"), respectively (each such request to be referred to as an "Interest Election Request"). The Borrower may elect different options with respect to different portions of a Revolving Credit Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans constituting such Borrowing, and the Loans constituting each such portion shall be considered a separate Borrowing. The Borrower shall

be entitled to elect at any time only one (1) option as to Type with respect to the Borrowing constituting the Term Loans.

(b) Notice of Elections. To make an election pursuant to this Section, the Borrower shall notify the Administrative Agent of such election by telephone by the time that a Borrowing Request would be required under Section 2.03 if the Borrower were requesting a Revolving Credit Borrowing of the Type resulting from such election to be made on the effective date of such election (regardless of whether the Borrowing to which such election applies is a Term Loan Borrowing or Revolving Credit Borrowing). Each such telephonic interest election request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Interest Election Request in the form of Exhibit F1 or Exhibit F2, as applicable, and signed by the Borrower.

(c) Content of Interest Election Requests. Each telephonic and written Interest Election Request shall specify the following information in compliance with Section 2.01 or Section 2.02 (as applicable): (i) the Borrowing to which such Interest Election Request applies and, with respect to any Revolving Credit Borrowing if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Revolving Credit Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) of this paragraph shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(iii) whether the Borrowing is to be an APR Borrowing or an ALR Borrowing; and

(iv) if the Borrowing is an ALR Borrowing, the Interest Period therefor after giving effect to such election, which shall be a period contemplated by the definition of the term "Interest Period" and permitted under paragraph (f) of this Section.

(d) Notice by the Administrative Agent to the Lenders. Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each Lender of the details thereof and of such Lender's portion of each resulting Borrowing.

(e) Failure to Elect: Events of Default. If the Borrower fails to deliver a timely and complete Interest Election Request with respect to an ALR Borrowing prior to the end of the Interest Period therefor, then, unless such Borrowing is repaid as provided herein, at the end of such Interest Period such Borrowing shall be converted to an APR Borrowing. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Borrower, then, so long as an Event of Default is continuing (A) no outstanding Borrowing may be converted to an ALR Borrowing, and (B) unless repaid, each ALR Borrowing shall be converted to an APR Borrowing at the end of the Interest Period therefor.

(f) Limitations on Interest Periods. Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to (i) request (or to elect to convert to or continue as an ALR Borrowing) any Revolving Credit Borrowing if the Interest Period requested therefor would end after the Revolving Credit Commitment Termination Date, or (ii) elect to convert to or continue as an ALR Borrowing the Borrowing constituting the Term Loans if the Interest Period requested therefor would end after the Maturity Date.

## **2.7 Termination and Reduction of the Commitments.**

(a) Scheduled Termination. Unless previously terminated, the Term Loan Commitments shall terminate on the Effective Date and the obligation of each Lender to make a Term Loan shall terminate on such date; provided, that notwithstanding such termination of the Term Loan Commitments, following the Effective Date each Lender's "Term Loan Commitment" shall refer to each Lender's respective rights with respect to the Term Loans and the Term Note as specifically provided herein (e.g., for the purposes of determining the allocation of payments among the Lenders pursuant to Section 2.15(c)). Unless previously terminated, the Revolving Credit Commitments shall terminate on the Revolving Credit Commitment Termination Date, and the obligations of the Lenders to make Revolving Credit Loans shall terminate on such date.

(b) Voluntary Termination or Reduction. The Borrower may at any time terminate, or from time to time reduce, the Revolving Credit Commitments; provided that (i) each reduction of the Revolving Credit Commitments shall be in an amount that is One Million Dollars (\$1,000,000) or a larger multiple of Five Hundred Thousand Dollars (\$500,000), and (ii) the Borrower shall not terminate or reduce the Revolving Credit Commitments if, after giving effect to any concurrent prepayment of the Revolving Credit Loans in accordance with Section 2.08, the total Revolving Credit Exposures would exceed the total Revolving Credit Commitments.

(c) Notice of Voluntary Termination or Reduction. The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Revolving Credit Commitments under paragraph (b) of this Section at least three (3) Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Borrower pursuant to this Section shall be irrevocable; provided that a notice of termination of the Revolving Credit Commitments delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied.

(d) Effect of Termination or Reduction. Any termination or reduction of the Revolving Credit Commitments shall be permanent. Each reduction of the Revolving Credit Commitments shall be made ratably among the Lenders in accordance with their respective Revolving Credit Commitments.

## 2.8 Repayment and Prepayment of Loans; Evidence of Debt.

(a) Repayment. The Borrower hereby unconditionally promises to pay the Loans as follows:

(i) to the Administrative Agent for account of the Lenders the outstanding principal amounts of the Term Loans as provided for in Section 2.01(d), and the outstanding principal amounts of the Revolving Credit Loans on the Revolving Credit Commitment Termination Date, and

(ii) in addition to the amounts described immediately above, the Borrower unconditionally promises to pay to the Administrative Agent for the account of the Lenders, and for the account of the Issuing Lender, as applicable, (A) on the Maturity Date all accrued and unpaid interest, all fees, costs and expenses, and all other amounts payable on or in connection with the Term Loans, and (B) on the Revolving Credit Commitment Date all accrued and unpaid interest, all fees, costs and expenses, and all other amounts payable on or in connection with the Revolving Credit Loans and Letters of Credit.

(b) Prepayments.

(i) Term Loans. The Borrower shall have the right at any time and from time to time prior to the Maturity Date to prepay outstanding principal amounts of the Term Loans, in whole or in part, subject to the requirements of this Section. Any prepayment of less than the entire outstanding principal amounts of the Term Loans shall be in a minimum aggregate principal amount of One Million Dollars (\$1,000,000) or in a larger multiple of Five Hundred Thousand Dollars (\$500,000), and shall be applied to the installments of principal repayments of the Term Loans (as described in Section 2.01) in their stated order of maturity. Prepayments of the Term Loans made at any time at which the Borrowing constituting the Term Loans is (A) an APR Borrowing shall be without premium or penalty, and (B) an ALR Borrowing shall be subject to the provisions of Section 2.13.

(ii) Revolving Credit Loans. The Borrower shall have the right at any time and from time to time prior to the Revolving Credit Commitment Termination Date to prepay the Revolving Credit Note, in whole or in part, subject to the requirements of this Section. Any prepayment of less than the outstanding principal amount of the Revolving Credit Loans shall be in a minimum aggregate principal amount of Five Hundred Thousand Dollars (\$500,000) or in a larger multiple of Two Hundred Fifty Thousand Dollars (\$250,000). Prepayments of the Revolving Credit Loans made at any time the Borrowing being repaid (in whole or in part) is (A) an APR Borrowing shall be without premium or penalty, and (B) an ALR Borrowing shall be subject to the provisions of Section 2.13.

(iii) Manner of Prepayment; Notices; Etc. The Borrower shall notify the Administrative Agent by telephone (confirmed by telecopy) of any prepayment hereunder (A) in the case of a prepayment of an ALR Borrowing, not later than 11:00 a.m., Local Time, three (3) Business Days before the date of prepayment, and (B) in the case of prepayment of an APR Borrowing, not later than 11:00 a.m., Local Time, on the date of the proposed prepayment. Each such notice shall be irrevocable and shall specify the Loans to be prepaid (whether Term Loans or Revolving Credit Loans), the prepayment date, and the principal amount of [I] in the case of the Term Loans, the principal amount to be prepaid, and [II] in the case of Revolving Credit Loans, the principal amount of each Borrowing (or portion thereof) to be prepaid; provided that, if a notice of prepayment is given in connection with a conditional notice of termination of the Revolving Credit Commitments as contemplated by Section 2.07, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.07. Promptly following receipt of any such notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each prepayment of the Borrowing constituting the Term Loans shall be applied ratably to each Lender's Term Loan Commitment pursuant to Section 2.15, and each prepayment of a Borrowing (or portion thereof) constituting Revolving Credit Loans (or a portion thereof, respectively) shall be applied ratably to each Lender's Revolving Credit Commitment pursuant to Section 2.15. Prepayments shall be accompanied by accrued interest to the extent required by Section 2.10 and shall be made in the manner specified in Section 2.15.

(c) Maintenance of Records by Lenders. Each Lender shall maintain in accordance with its usual practice records evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(d) Effect of Entries. The entries made in the records maintained pursuant to paragraph (c) of this Section and Section 2.01(e) or Section 2.02(f), as applicable, shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Lender or the Administrative Agent to maintain such records or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

## 2.9 Fees.

(a) Revolving Credit Fees. The Borrower agrees to pay to the Administrative Agent for account of each Lender revolving credit fees which shall accrue at the Applicable Margin on the average daily unused amount of the Revolving Credit Commitment of such Lender during the period from and including the date hereof to but excluding the earlier to occur of (i) the date such Revolving Credit Commitment terminates, and (ii) the Revolving Credit Termination Date. Accrued revolving credit fees shall be payable in arrears on the on the third (3<sup>rd</sup>) Business Day following each Quarterly Date, and on the earlier to occur of (A) the date the Revolving Credit Commitments terminate, and (B) the Revolving Credit Termination Date, commencing on the first such date to occur after the date hereof. All revolving credit fees shall be computed on the basis of a year of three hundred sixty (360) days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day). For purposes of computing revolving credit fees, the Revolving Credit Commitment of a Lender shall be

deemed to be used to the extent of the outstanding Revolving Credit Loans and LC Exposure of such Lender.

(b) Letter of Credit Fees. The Borrower agrees to pay (i) to the Administrative Agent for account of each Lender a participation fee with respect to its participations in Letters of Credit, which shall accrue at a rate *per annum* equal to seventy-five one hundredths (75/100ths) of one percent (1%) on the average daily amount of such Lender's LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date on which such Lender's Revolving Credit Commitment terminates and the date on which such Lender ceases to have any LC Exposure, and (ii) to the Issuing Lender a fronting fee, which shall accrue at the rate of twenty-five one hundredths (25/100ths) of one percent (1%) *per annum* on the average daily amount of the LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date of termination of the Revolving Credit Commitments and the date on which there ceases to be any LC Exposure, as well as the Issuing Lender's standard fees with respect to the issuance, amendment, renewal or extension of any Letter of Credit or processing of drawings thereunder. Participation fees and fronting fees accrued through and including each Quarterly Date shall be payable on the third (3<sup>rd</sup>) Business Day following such Quarterly Date, commencing on the first such date to occur after the Effective Date; provided that all such fees shall be payable on the date on which the Revolving Credit Commitments terminate and any such fees accruing after the date on which the Revolving Credit Commitments terminate shall be payable on demand. Any other fees payable to the Issuing Lender pursuant to this paragraph shall be payable within ten (10) days after demand. All participation fees and fronting fees shall be computed on the basis of a year of three hundred sixty (360) days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(c) Commitment Fees and Administrative Agent Fees. The Borrower agrees to pay to the Administrative Agent, the fees payable in the amounts and at the times separately agreed upon in a "Fee Letter" between the Borrower and the Administrative Agent.

(d) Payment of Fees. All fees payable hereunder shall be paid on the dates due in immediately available funds to the Administrative Agent (or to the Issuing Lender, in the case of fees payable to it) for distribution, in the case of revolving credit fees and Letters of Credit participation fees, to the Lenders entitled thereto. Fees paid shall not be refundable under any circumstances.

## **2.10 Interest.**

(a) APR Loans. The Loans constituting each APR Borrowing shall bear interest at a rate *per annum* equal to the Adjusted Prime Rate.

(b) ALR Loans. The Loans constituting each ALR Borrowing shall bear interest at a rate *per annum* equal to the Adjusted LIBOR for the Interest Period for such Borrowing.

(c) Default Interest. Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration, or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate *per annum* equal to (i) in the case of overdue principal of any Loan, two percent (2%) above the rate otherwise applicable to such Loan as provided above or (ii) in the case of any other amount, two percent (2%) above the Adjusted Prime Rate.

(d) Payment of Interest. Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan and, (i) in the case of a Term Loan, on the Maturity Date, and (ii) in the case of a Revolving Credit Loan, on the Revolving Credit Commitment Termination Date; provided that (A) interest accrued pursuant to paragraph (c) of this Section shall be payable on demand, (B) in the event of any prepayment of any ALR Loan, accrued interest on the principal amount prepaid shall be payable on the date of such prepayment, (C) in the event of prepayment of any APR Loan, accrued interest on the principal amount prepaid shall be payable on the next scheduled Interest Payment Date, and (C) in the event of any conversion of an ALR Borrowing prior to the end of the Interest Period therefor, accrued interest on such Borrowing shall be payable on the effective date of such conversion.

(e) Computation. All interest hereunder shall be computed on the basis of a year of three hundred sixty (360) days and shall be payable for the actual number of days elapsed. The applicable Adjusted Prime Rate and/or Adjusted LIBOR shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

## **2.11 Alternate Rate of Interest.**

If prior to the commencement of the Interest Period for any ALR Borrowing:

(a) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the LIBOR for such Interest Period; or

(b) the Administrative Agent is advised by the Required Lenders that the LIBOR for such Interest Period will not adequately and fairly reflect the cost to such Lenders of making or maintaining their respective Loans included in such Borrowing for such Interest Period; then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any Interest Election Request that requests the conversion of any Borrowing to, or the continuation of any Borrowing as, an ALR Borrowing shall be ineffective and such Borrowing (unless prepaid) shall be continued as, or converted to, an APR Borrowing, and (ii) if any Borrowing Request requests an ALR Borrowing, such Borrowing shall be made as an APR Borrowing.

## 2.12 Increased Costs.

(a) Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for account of, or credit extended by, any Lender (except any such reserve requirement reflected in the LIBOR) or the Issuing Lender; or

(ii) impose on any Lender or the Issuing Lender or the London interbank market any other condition affecting this Agreement or ALR Loans made by such Lender or any Letter of Credit or participation therein; and

(iii) the result of any of the foregoing shall be to increase the cost to such Lenders of making or maintaining any ALR Loan (or of maintaining its obligation to make any such Loan) or to increase the cost to such Lender or the Issuing Lender of participating in, issuing or maintaining any Letter of Credit or to reduce the amount of any sum received or receivable by such Lender or the Issuing Lender hereunder (whether of principal, interest or otherwise); then the Borrower will pay to such Lender or the Issuing Lender, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Lender, as the case may be, for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If any Lender or the Issuing Lender reasonably determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or the Issuing Lender's capital or on the capital of such Lender's or the Issuing Lender's holding company, if any, as a consequence of this Agreement or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by the Issuing Lender, to a level below that which such Lender or the Issuing Lender or such Lender's or the Issuing Lender's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or the Issuing Lender's policies and the policies of such Lender's or the Issuing Lender's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or the Issuing Lender, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Lender or such Lender's or the Issuing Lender's holding company for any such reduction suffered.

(c) Certificates from Lenders. A certificate of a Lender or the Issuing Lender setting forth the amount or amounts, necessary to compensate such Lender or the Issuing Lender or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender or the Issuing Lender, as the case may be, the amount shown as due on any such certificate within ten (10) Business Days after receipt thereof.

(d) Delay in Requests. Failure or delay on the part of any Lender or the Issuing Lender to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's or the Issuing Lender's right to demand such compensation; provided that the Borrower shall not be required to compensate a Lender or the Issuing Lender pursuant to this Section for any increased costs or reductions incurred more than six (6) months prior to the date that such Lender or the Issuing Lender, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or the Issuing Lender's intention to claim compensation therefor; provided further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the six (6) month period referred to above shall be extended to include the period of retroactive effect thereof.

## 2.13 Break Funding Payments.

In the event of (a) the payment of any principal of any ALR Loan other than on the applicable Interest Payment Date therefor (including as a result of an Event of Default), (b) the conversion of any ALR Loan other than on the last day of an Interest Period therefor, (c) the failure to borrow, convert, continue or prepay any Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice is permitted to be revocable under Section 2.07 and is revoked in accordance herewith), or (d) the assignment as a result of a request by the Borrower pursuant to Section 2.16(b) of any ALR Loan other than on the last day of an Interest Period therefor, then, in any such event, the Borrower shall pay to each Lender an amount as will (in the reasonable determination of such Lender) compensate such Lender for losses, costs and expenses attributable to such event. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within ten (10) Business Days after receipt thereof.

## 2.14 Taxes.

(a) Payments Free of Taxes. Any and all payments by or on account of any obligation of the Borrower hereunder or under any other Loan Document shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if the Borrower shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions, (including deductions applicable to additional sums payable under this Section) the Administrative Agent, any Lender or the Issuing Lender (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) Payment of Other Taxes by the Borrower. In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) Indemnification by the Borrower. The Borrower shall indemnify the Administrative Agent, each Lender and the Issuing Lender, within ten (10) Business Days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) paid by the Administrative Agent, such Lender or the Issuing Lender, as the case may be, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender or the Issuing Lender, or by the Administrative Agent on its own behalf or on behalf of a Lender or the Issuing Lender, shall be conclusive absent manifest error.

(d) Evidence of Payments. As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

## **2.15 Payments Generally; Pro Rata Treatment; Sharing of Set-offs.**

(a) Payments by the Borrower. The Borrower shall make each payment required to be made by it hereunder (whether of principal, interest, fees or reimbursement of LC Disbursements, or under Section 2.12, 2.13 or 2.14, or otherwise) or under any other Loan Document (except to the extent otherwise provided therein) prior to 12:00 noon, Local Time, on the date when due, in immediately available funds, without set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at the Administrative Agent's Account, except as otherwise expressly provided in the relevant Loan Document and except payments to be made directly to the Issuing Lender as expressly provided herein and payments pursuant to Sections 2.12, 2.13, 2.14 and 9.03, which shall be made directly to the Persons entitled thereto. The Administrative Agent shall distribute any such payments received by it for account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All amounts owing under this Agreement (including revolving credit fees, and for payments required under Section 2.13) or under any other Loan Document (except to the extent otherwise provided therein) are payable in Dollars.

(b) Application of Insufficient Payments. If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, unreimbursed LC Disbursements, interest and fees then due hereunder, such funds shall be applied (i) first, to pay interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and (ii) second, to pay principal and unreimbursed LC Disbursements then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal and unreimbursed LC Disbursements then due to such parties.

(c) Pro Rata Treatment. Except to the extent otherwise provided herein: (i)(A) the Borrowing constituting the Term Loans shall be made from the Lenders *pro rata* according to the amounts of their respective Term Loan Commitments; (B) each Revolving Credit Borrowing shall be made from the Lenders *pro rata* according to the amounts of their respective Revolving Credit Commitments, (C) each payment of revolving credit fees under Section 2.09 shall be made for account of the Lenders *pro rata* according to the amounts of their respective Revolving Credit Commitments, and (D) each termination or reduction of the amount of the Revolving Credit Commitments under Section 2.07 shall be applied to the Revolving Credit Commitments of the Lenders *pro rata* according to the amounts of their respective Revolving Credit Commitments; (ii) the Borrowing constituting the Term Loans and each Revolving Credit Borrowing shall be allocated *pro rata* among the Lenders (in the case of the making of Loans) according to the amounts of their respective Term Loan Commitments or Revolving Credit Commitments, as applicable, or their respective Loans that are to be included in such Borrowing (in the case of conversions and continuations of Borrowings); (iii) each payment or prepayment of principal of the Term Loans or Revolving Credit Loans by the Borrower shall be made for account of the Lenders *pro rata* in accordance with the respective unpaid principal amounts of the Term Loans or Revolving Credit Loans, respectively, held by them; and (iv) each payment of interest on the Term Loans or Revolving Credit Loans by the Borrower shall be made for account of the Lenders *pro rata* in accordance with the amounts of interest on the Term Loans or Revolving Credit Loans then due and payable to the respective Lenders.

(d) Sharing of Payments by Lenders. If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Loans or participations in LC Disbursements resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Loans and participations in LC Disbursements and accrued interest thereon then due than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Loans and participations in LC Disbursements of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans and participations in LC Disbursements; provided that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or participations in LC Disbursements to any assignee or participant, other than to the Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(e) Presumptions of Payment. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for account of the Lenders or the Issuing Lender hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or the Issuing Lender, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or the Issuing Lender, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or the Issuing Lender with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the Federal Funds Effective Rate.

(f) Certain Deductions by the Administrative Agent. If any Lender shall fail to make any payment required to be made by it pursuant to Section 2.04(e), 2.05(b) or 2.15(e), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid.

## **2.16 Mitigation Obligations; Replacement of Lenders.**

(a) Designation of a Different Lending Office. If any Lender requests compensation under Section 2.12, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for account of any Lender pursuant to Section 2.14, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.12 or 2.14, as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) Replacement of Lenders. If any Lender requests compensation under Section 2.12, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for account of any Lender pursuant to Section 2.14, or if any Lender defaults in its obligation to fund Loans hereunder, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 9.04), all its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that (i) the Borrower shall have received the prior written consent of the Administrative Agent (and, if a Commitment is being assigned, the Issuing Lender), which consent shall not unreasonably be withheld, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and participations in LC Disbursements accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts), and (iii) in the case of any such assignment resulting from a claim for compensation under Section 2.12 or payments required to be made pursuant to Section 2.14, such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

## **ARTICLE III REPRESENTATIONS AND WARRANTIES**

The Borrower represents and warrants to the Lenders that (a) on the Effective Date, and (b) if any representation or warranty below is expressly stated to have been made as of a specific date, as of such specific date:

**3.1 Organization; Powers.** Each of the Borrower, its Subsidiaries, Technologies and Holdings is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite power and authority to carry on its business as now conducted, and is qualified to do business in and is in good standing in every jurisdiction where such qualification is required, except where the failure to be so qualified, individually or in the aggregate, could not result in a Material Adverse Effect. Holdings is the owner of one hundred percent (100%) of the issued and outstanding capital stock of the Borrower, and Technologies is the owner of one hundred percent (100%) of the issued and outstanding capital stock of Holdings.

**3.2 Authorization; Enforceability.** The Transactions are within the Borrower's and its Subsidiaries' corporate powers and have been duly authorized by all necessary corporate and, if required, by all necessary shareholder action. This Agreement has been duly executed and delivered by the Borrower and constitutes, and each of the other Loan Documents when executed and delivered will constitute, a legal, valid and binding obligation of the Borrower or its Subsidiaries, as the case may be, enforceable in accordance with its terms, except as such enforceability may be limited by (a) bankruptcy, insolvency, reorganization, moratorium or similar laws of general applicability affecting the enforcement of creditors' rights, and (b) the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

**3.3 Governmental Approvals; No Conflicts.** The Transactions (a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except such as have been obtained or made and are in full force and effect, (b) will not violate any applicable law or regulation or the charter, by-laws or other organizational documents of the Borrower or any of its Subsidiaries or any order of any Governmental Authority, (c) will not violate or result in a default under any indenture, agreement or other instrument binding upon the Borrower or any of its Subsidiaries or assets, or give rise to a right thereunder to require any payment to be made by any such Person, and (d) will not result in the creation or imposition of any Lien on any asset of the Borrower or any of its Subsidiaries other than Liens in favor

of the Administrative Agent and the Lenders in connection with the Transactions.

### **3.4 Financial Condition; No Material Adverse Change.**

(a) Financial Condition. The Borrower has heretofore furnished to the Lenders (i) a Consolidated balance sheet and statements of income, stockholders' equity and cash flows of Technologies and its Subsidiaries (including the Borrower and its Subsidiaries) as of and for the fiscal years ended January 2, 1998, January 1, 1999 and December 31, 1999, reported on by Deloitte & Touche, LLP, independent public accountants, (ii) a Consolidated unaudited balance sheet and statements of income, stockholders' equity and cash flows of Technologies and its Subsidiaries (including the Borrower and its Subsidiaries) as of and for the fiscal quarter ended September 29, 2000, and (iii) projections, including the assumptions therefor, of Technologies and its Subsidiaries (including the Borrower and its Subsidiaries) for the fiscal years 2000 through 2003. The financial statements referred to in clause (i) above present fairly, in all material respects, the financial position and results of operations and cash flows of Technologies and its Subsidiaries as of such dates and for such periods in accordance with GAAP. Subject to normal year-end adjustments and disclosures as would be made in the financial statements referred to in clause (ii) above if audited, the financial statements referred to in clause (ii) above present fairly, in all material respects, the financial position and results of operations and cash flows of Technologies and its Subsidiaries as of such date and for such period in accordance with GAAP. The projections referred to in clause (iii) above reflect the best estimate the management of Borrower and the management of Technologies of the future performance of Technologies and its Subsidiaries (including the Borrower and its Subsidiaries), based upon historical financial information and reasonable assumptions of each such management group.

(b) No Material Adverse Change. Since September 29, 2000, there has been no material adverse change in the business, assets, operations or condition, financial or otherwise, of (i) Technologies and its Subsidiaries, taken as a whole, or (ii) the Borrower and its Subsidiaries, taken as a whole.

### **3.5 Properties.**

(a) Property Generally. Each of the Borrower and its Subsidiaries has good title to, or valid leasehold interests in, all its real and personal property material to its business, subject only to Liens permitted by Section 6.02 and except for minor defects in title that do not interfere with its ability to conduct its business as currently conducted or to utilize such properties for their intended purposes.

(b) Intellectual Property. Each of the Borrower and its Subsidiaries owns all trademarks, tradenames, copyrights, patents and other intellectual property material to its business, and the use thereof by the Borrower and its Subsidiaries does not materially infringe upon the rights of any other Person. All patents, trademarks and tradenames owned by the Borrower or any of its Subsidiaries on the Effective Date are listed on Part D of Schedule II hereto.

### **3.6 Litigation and Environmental Matters.**

(a) Actions, Suits and Proceedings. Except for the Disclosed Matters, there are no actions, suits or proceedings by or before any arbitrator or Governmental Authority now pending against, or to the knowledge of the Borrower threatened against, or affecting the Borrower or any of its Subsidiaries (i) that, if adversely determined, could, individually or in the aggregate, result in a Material Adverse Effect, or (ii) in connection with this Agreement or the Transactions.

(b) Environmental Matters. Except for the Disclosed Matters, neither the Borrower nor any of its Subsidiaries (i) has failed to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law, which noncompliance or failure could, individually or in the aggregate, result in a Material Adverse Effect, (ii) has become subject to any material Environmental Liability, (iii) has received notice of any claim with respect to any Environmental Liability, or (iv) knows of any basis for any Environmental Liability.

(c) Disclosed Matters. Since the date of this Agreement, there has been no change in the status of the Disclosed Matters that, individually or in the aggregate, has resulted in, or could result in, a Material Adverse Effect.

### **3.7 Compliance with Laws and Agreements.**

Each of the Borrower and its Subsidiaries is in material compliance with all laws, regulations and orders of any Governmental Authority applicable to it or its property and all indentures, agreements and other instruments binding upon it or its property. No Default has occurred and is continuing.

### **3.8 Subordinated Indebtedness.**

On the Effective Date, the aggregate amount necessary to repay in full the Indebtedness of the Borrower under the Borrower's 13% Senior Subordinated Notes due 2007 in the original principal amount of Twenty Five Million Dollars (\$25,000,000), including, but not limited to, all fees, charges, interest, and other amounts payable pursuant to the repayment (whether scheduled or prior to the due date thereof) of such Indebtedness on the Effective Date, shall equal Twenty One Million Eight Hundred Sixty Four Thousand Dollars (\$21,864,000.00).

### 3.9 Investment and Holding Company Status.

Neither the Borrower nor any of its Subsidiaries is (a) an “investment company” as defined in, or subject to regulation under, the Investment Company Act of 1940, or (b) a “holding company” as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935.

### 3.10 Taxes.

Each of Technologies, Holdings, the Borrower and its Subsidiaries has timely filed or caused to be filed all tax returns and reports required to have been filed and has paid or caused to be paid all Taxes required to have been paid by it, except (a) Taxes that are being contested in good faith by appropriate proceedings and for which such Person has set aside on its books adequate reserves and (b) for such failures to timely file Tax returns or reports or nonpayment of Taxes which could not, individually or in the aggregate, result in a Material Adverse Effect.

### 3.11 ERISA.

No ERISA Event has occurred or is reasonably expected to occur that has resulted in or that could result in a Material Adverse Effect. No Plan is subject to Title IV of ERISA.

### 3.12 Disclosure.

None of the reports, financial statements, certificates or other information furnished by or on behalf of the Borrower or its Subsidiaries to the Lenders in connection with the negotiation of this Agreement and the other Loan Documents or delivered hereunder or thereunder (as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, the Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

### 3.13 Use of Credit.

Neither the Borrower nor any of its Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose, whether immediate, incidental or ultimate, of buying or carrying Margin Stock, and no part of the proceeds of any extension of credit hereunder will be used to buy or carry any Margin Stock.

## ARTICLE IV CONDITIONS

### 4.1 Effective Date.

The obligations of the Lenders to make Loans and of the Issuing Lender to issue Letters of Credit hereunder shall not become effective until the date on which the Administrative Agent shall have received each of the following documents, each of which shall be satisfactory to the Administrative Agent (and to the extent specified below, to each Lender) in form and substance (or such condition shall have been waived in accordance with Section 9.02):

(a) Executed Counterparts. From each party hereto either (i) a counterpart of this Agreement signed on behalf of such party, or (ii) written evidence satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page to this Agreement) that such party has signed a counterpart of this Agreement.

(b) Opinion of Counsel. A favorable written opinion (addressed to the Administrative Agent and the Lenders and dated the Effective Date) of Weil, Gotshal & Manges, LLP, counsel to the Borrower, its Subsidiaries, Technologies and Holdings, substantially in the form of Exhibit B, and covering such other matters relating to the Borrower, this Agreement or the Transactions as the Required Lenders shall reasonably request (and the Borrower hereby instructs such counsel to deliver such opinion to the Lenders and the Administrative Agent).

(c) Corporate Documents. Such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of the Borrower, its Subsidiaries, Technologies and Holdings, the authorization of the Transactions and any other legal matters relating to the Borrower, this Agreement or the Transactions, all in form and substance satisfactory to the Administrative Agent and its counsel.

(d) Officer's Certificate. A certificate, dated the Effective Date and signed by a Senior Executive Officer or a Financial Officer of the Borrower, confirming compliance with the conditions set forth in the lettered clauses of the first sentence of Section 4.02.

(e) Repayment of Existing Indebtedness; Termination of Liens. Evidence that the principal of and interest on, and all other amounts owing in respect of, the Indebtedness (including any contingent or other amounts payable in respect of letters of credit) indicated on Part A of Schedule II that is to be repaid on the Effective Date shall have been (or shall be simultaneously) paid in full, that any commitments to extend credit under the agreements or instruments relating to such Indebtedness shall have been canceled or terminated and that all Guarantees in

respect of, and all Liens securing, any such Indebtedness shall have been released (or arrangements for such release satisfactory to the Required Lenders shall have been made).

(f) Guaranty Agreements. Technologies, Holdings and each domestic Subsidiary of the Borrower shall have executed and delivered to the Administrative Agent a Guaranty Agreement (each such agreement, a “Guaranty Agreement”) in form and content acceptable to the Administrative Agent (on behalf of the Lenders), providing for the guarantee of payment by such Person of the Borrower’s obligations to the Administrative Agent, the Lenders and the Issuing Lender under the Loan Documents.

(g) Security Agreements. The Borrower and each domestic Subsidiary of the Borrower shall have executed and delivered to the Administrative Agent a Security Agreement (each such agreement, a “Security Agreement”) in form and content acceptable to the Administrative Agent, granting to the Administrative Agent (on behalf of the Lenders) a Lien in all of such Person’s equipment, inventory, fixtures, accounts, chattel paper, general intangibles, documents, investment property and instruments, whether now owned or hereafter acquired, wherever located, and any and all products and proceeds thereof, and shall secure the payment of any and all Indebtedness and liabilities, whether now existing or hereafter incurred, of the Borrower or such Subsidiary to the Administrative Agent, the Lenders and the Issuing Lender under the Loan Documents; and the Administrative Agent shall have received appropriate financing statements to perfect each such Lien, which Lien shall be superior in priority to all other Liens, other than Liens arising after the date of this Agreement having priority over the Liens of the Administrative Agent by operation of applicable law. The Borrower and each domestic Subsidiary of the Borrower shall have executed and delivered to the Administrative Agent a Patent Security Agreement, a Trademark Security Agreement and a Copyright Security Agreement, each in form and substance acceptable to the Administrative Agent (collectively, the “Intellectual Property Security Agreements”).

(h) Borrower Pledge Agreement. The Borrower shall have executed and delivered to the Administrative Agent a Pledge Agreement (the “Borrower Pledge Agreement”) in form and content acceptable to the Administrative Agent pursuant to which the Borrower has pledged to the Administrative Agent (on behalf of the Lenders) all issued and outstanding securities of each domestic Subsidiary of the Borrower, which shall secure the payment of any and all Indebtedness and liabilities, whether now existing or hereafter incurred, of the Borrower to the Administrative Agent, the Lenders and the Issuing Lender under the Loan Documents, and in connection therewith shall have delivered to the Administrative Agent certificates representing such issued and outstanding securities with related stock powers duly endorsed in blank.

(i) Certificates of Insurance. The Administrative Agent shall have received certificates of insurance and insurance policies, in form and content acceptable to the Administrative Agent, evidencing the insurance required to be carried by the Borrower pursuant to Section 5.07 hereof with endorsements, satisfactory to the Agent, designating the Agent as an additional insured and a loss payee and further designating that each such insurance policy contains a notice of cancellation provision satisfactory to the Agent.

(j) Payment of Fees. On or before Effective Date the Administrative Agent shall have received all fees payable to the Administrative Agent for itself as Administrative Agent pursuant to one or more agreements with the Borrower relating to such fees.

(k) General Assurances. All other documents and legal matters in connection with the transactions contemplated by this Agreement and the other Loan Documents shall be satisfactory in form and substance to the Administrative Agent. The Borrower shall have delivered such further documents to the Administrative Agent and taken such further action respecting this Agreement and the other Loan Documents as the Administrative Agent or any Lender or counsel to M&T may reasonably request.

The obligation of any Lender to make its initial extension of credit hereunder is also subject to the payment by the Borrower of such fees as the Borrower shall have agreed to pay to any Lender or the Administrative Agent in connection herewith, including, without limitation, the reasonable fees and expenses of Lippes, Silverstein, Mathias & Wexler LLP, counsel to the Administrative Agent, in connection with the negotiation, preparation, execution and delivery of this Agreement and the other Loan Documents and the extensions of credit hereunder (to the extent that statements for such fees and expenses have been delivered to the Borrower).

The Administrative Agent shall notify the Borrower and the Lenders of the Effective Date, and such notice shall be conclusive and binding.

#### **4.2 Each Credit Event.**

The obligation of each Lender to make any Loan, and of the Issuing Lender to issue, amend, renew or extend any Letter of Credit, is additionally subject to the satisfaction of the following conditions:

(a) the representations and warranties of the Borrower set forth in this Agreement shall be true and correct on and as of the date of such Loan or the issuance, amendment, renewal or extension of such Letter or Credit (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date); and

(b) at the time of and immediately after giving effect to such Loan or the issuance, amendment, renewal or extension of such Letter of Credit, as applicable, no Default shall have occurred and be continuing.

Each Borrowing and each issuance, amendment, renewal or extension of a Letter of Credit shall be deemed to constitute a representation and warranty by the Borrower on the date thereof as to the matters specified in the preceding sentence.

## ARTICLE V AFFIRMATIVE COVENANTS

Until the Commitments have expired or been terminated and the principal of and interest on each Note and all fees and expenses payable under the Loan Documents shall have been paid in full and all Letters of Credit shall have expired or terminated and all LC Disbursements shall have been reimbursed, the Borrower covenants and agrees with the Administrative Agent, the Issuing Lender and the Lenders that:

### 5.1 Financial Statements and Other Information.

The Borrower will furnish, or cause to be furnished, to the Administrative Agent and each Lender:

(a) within ninety (90) days after the end of each fiscal year of the Borrower, the Consolidated and Consolidating balance sheet and related statements of operations, stockholders' equity and cash flows as of the end of and for such year, setting forth in each case in comparative form the figures for the previous fiscal year, in form substantially similar to the statements described in Section 3.04(a), and all based on the results of operations and calculations reported on by Deloitte & Touche, LLP or other independent public accountants of recognized national standing as contained in the financial statements described in Section 5.01(e), below, such Consolidated and Consolidating financial statements to present fairly in all material respects the financial condition and results of operations on a Consolidated basis in accordance with GAAP consistently applied, subject to the absence of footnotes;

(b) within forty five (45) days after the end of each of the first three (3) fiscal quarters of each fiscal year of the Borrower, the Consolidated and Consolidating balance sheet and related statements of operations, stockholders' equity and cash flows as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for (or, in the case of the balance sheet, as of the end of the corresponding period or periods of the previous fiscal year, all certified by a Financial Officer of the Borrower as presenting fairly in all material respects the financial condition and results of operations on a Consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes;

(c) concurrently with any delivery of financial statements under clause (a) or (b) of this Section, a certificate of a Financial Officer of the Borrower in the form of Exhibit G (i) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (ii) setting forth reasonably detailed calculations demonstrating compliance with Sections 6.01, 6.07 and 6.10, and (iii) stating whether any change in GAAP or in the application thereof has occurred since the date of the audited financial statements referred to in Section 3.04 and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate;

(d) concurrently with any delivery of financial statements under clause (e) of this Section, a certificate of the accounting firm that reported on such financial statements stating whether they obtained knowledge during the course of their examination of such financial statements of any Default (which certificate may be limited to the extent required by accounting rules or guidelines);

(e) within ninety (90) days after the end of each fiscal year of Technologies, the audited consolidated and consolidating balance sheet and related statements of operations, stockholders' equity and cash flows of Technologies and its Subsidiaries as of the end of and for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by Deloitte & Touche, LLP or other independent public accountants of recognized national standing (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) to the effect that such consolidated financial statements present fairly in all material respects the financial condition and results of operations of Technologies and its Subsidiaries on a consolidated basis in accordance with GAAP consistently applied;

(f) promptly following submission to the United States Securities and Exchange Commission, a copy of Form 10-Q (with all attachments), Form 10-K and all other forms, documents or certificates filed by Technologies or any of its Subsidiaries with such Commission; and

(g) promptly following any request therefor, such other information regarding the operations, business affairs and financial condition of the Borrower or any of its Subsidiaries, or compliance with the terms of this Agreement and the other Loan Documents, as the Administrative Agent or any Lender may reasonably request.

### 5.2 Notices of Material Events.

The Borrower will furnish to the Administrative Agent and each Lender prompt written notice of the following:

(a) the occurrence of any Default;

(b) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or affecting the Borrower or any of its Affiliates that, if adversely determined, could result in a Material Adverse Effect;

(c) the occurrence of any ERISA Event;

(d) the assertion of any material environmental matter by any Person against, or with respect to the activities of, the Borrower or any of its

Subsidiaries and any alleged material violation of or non-compliance with any Environmental Laws or any permits, licenses or authorizations; and

(e) any other development that results in, or could result in, a Material Adverse Effect.

Each notice delivered under this Section shall be accompanied by a statement of a Financial Officer or other executive officer of the Borrower setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

### **5.3 Existence: Conduct of Business.**

The Borrower will, and will cause each of its Subsidiaries to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges and franchises material to the conduct of its business; provided -- ----- that the foregoing shall not prohibit any merger, consolidation, liquidation or dissolution permitted under Section 6.03.

### **5.4 Future Subsidiaries; Subsidiary Guarantors.**

The Borrower shall cause each domestic Subsidiary of the Borrower on the Effective Date, and each Person that becomes a domestic Subsidiary of the Borrower or of any Subsidiary of the Borrower after the Effective Date, to execute and deliver to the Administrative Agent a Guaranty Agreement, a Security Agreement, Intellectual Property Security Agreements, and such other agreements, documents and instruments reasonably requested by the Administrative Agent. All Subsidiaries of the Borrower on the Effective Date are listed on Part E of Schedule II. Upon the request of the Required Lenders, the Borrower shall execute and deliver to the Administrative Agent (on behalf of the Lenders) a Borrower Pledge Agreement with respect to the capital stock or other securities of any Subsidiary of the Borrower that is domiciled outside of the United States, or of any Person that is domiciled outside of the United States that becomes a Subsidiary of the Borrower or of any Subsidiary of the Borrower after the Effective Date, pursuant to which the Borrower shall pledge to the Administrative Agent (on behalf of the Lenders) up to a maximum of sixty six and two thirds percent (66 2/3 %) of the issued and outstanding securities of such foreign Subsidiary, and shall secure the payment of any and all Indebtedness and liabilities, whether now existing or hereafter incurred, of the Borrower to the Administrative Agent, the Lenders and the Issuing Lender, and in connection therewith shall have delivered to the Administrative Agent certificates representing such issued and outstanding securities with related stock powers duly endorsed in blank

### **5.5 Future Parent Entities; Parent Guarantors.**

If the Borrower or any Subsidiary of the Borrower becomes a Subsidiary of any Person other than Technologies or Holdings after the Effective Date, the Borrower shall cause each such Person to execute and deliver to the Administrative Agent a Guaranty Agreement (each such Person to be referred to as a "Parent Guarantor").

### **5.6 Payment of Obligations.**

The Borrower will, and will cause each of its Subsidiaries to, pay its obligations, including tax liabilities before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) the Borrower or such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP and (c) the failure to make payment pending such contest would not result in a Material Adverse Effect.

### **5.7 Maintenance of Properties; Insurance.**

The Borrower will, and will cause each of its Subsidiaries to, (a) keep and maintain all property material to the conduct of its business in good working order and condition, ordinary wear and tear excepted, and (b) maintain, with financially sound and reputable insurance companies, insurance in such amounts and against such risks as are customarily maintained by companies engaged in the same or similar businesses operating in the same or similar locations. Part F of Schedule II lists and generally describes each policy of insurance covering the business of, or any material asset of, the Borrower or any of its Subsidiaries on the Effective Date.

### **5.8 Books and Records; Inspection Rights.**

The Borrower will, and will cause each of its Subsidiaries to, keep proper books of record and account in which full, true and correct entries are made of all dealings and transactions in relation to its business and activities. The Borrower will, and will cause each of its Subsidiaries to, permit any representatives designated by the Administrative Agent or any Lender, upon reasonable prior notice and during normal business hours, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers and independent accountants, all at such reasonable times and as often as reasonably requested.

### **5.9 Compliance with Laws.**

The Borrower will, and will cause each of its Subsidiaries to, comply with all laws, rules, regulations and orders of any Governmental Authority applicable to it or its property in all material respects.

## 5.10 Use of Proceeds.

The proceeds of the Loans will only be used, and Letters of Credit will be issued only to support obligations incurred by the Borrower and its Subsidiaries, to repay the existing Indebtedness of the Borrower (as set forth in Part A of Schedule II), for the general corporate purposes of the Borrower and its Subsidiaries in the ordinary course of business, and to finance acquisitions permitted pursuant to Section 6.03(c)(iii). No part of the proceeds of any Loan will be used whether directly or indirectly, for any purpose that entails violation of any of the Regulations of the Board, including Regulations U and X, in the ordinary course of business.

## ARTICLE VI NEGATIVE COVENANTS

Until the Commitments have expired or terminated and the principal of and interest on each Note and all fees and expenses payable under the Loan Documents have been paid in full and all Letters of Credit have expired or terminated and all LC Disbursements shall have been reimbursed, the Borrower covenants and agrees with the Administrative Agent, the Issuing Lender and the Lenders that:

### 6.1 Indebtedness.

The Borrower will not, nor will it permit any of its Subsidiaries to, create, incur, assume or permit to exist any Indebtedness, except:

(a) Indebtedness created hereunder;

(b) Indebtedness assumed by the Borrower and/or by its Subsidiaries in any acquisition permitted pursuant to Section 6.03(c)(iii) to the extent, and solely to the extent, the aggregate principal amount of all such Indebtedness at any time outstanding does not exceed Seven Million Five Hundred Thousand Dollars (\$7,500,000), and refinancings and replacements thereof (i) in a principal amount not exceeding in the aggregate the principal amount of the Indebtedness so refinanced or replaced plus any prepayment penalties, fees and expenses incurred in connection with such refinancings or replacements, (ii) with an all-in cost which is less than the Indebtedness so refinanced or replaced, and (iii) with an average life to maturity of not less than the then average life to maturity of the Indebtedness so refinanced or replaced;

(c) Indebtedness existing on the date hereof and set forth in Part A of Schedule II (excluding, however, following the making of the initial Loans hereunder, the Indebtedness to be repaid with the proceeds of such Loans, as indicated on Schedule II), and extensions, renewals and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof;

(d) Indebtedness of the Borrower to any Subsidiary Guarantor and of any Subsidiary Guarantor to the Borrower or any other Subsidiary Guarantor; and

(e) Indebtedness of the Borrower or any Subsidiary Guarantor incurred to finance the acquisition, construction or improvement of any fixed or capital assets, including Capital Lease Obligations and any Indebtedness assumed in connection with the acquisition of any such assets or secured by a Lien on any such assets prior to the acquisition thereof, and extensions, renewals and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof; provided that (i) such Indebtedness is incurred prior to or within thirty (30) days after such acquisition or the completion of such construction or improvement and (ii) the aggregate principal amount of Indebtedness permitted by this clause (e) shall not exceed Five Million Dollars (\$5,000,000) at any time outstanding.

### 6.2 Liens.

The Borrower will not, nor will it permit any of its Subsidiaries to, create, incur, assume or permit to exist any Lien on any property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect of any thereof, except:

(a) any Lien on any property or asset of the Borrower or any of its Subsidiaries existing on the date hereof and set forth in Part B of Schedule II (excluding, however, following the making of the initial Loans hereunder, Liens (if any) securing Indebtedness to be repaid with the proceeds of such Loans, as indicated on Schedule II);

(b) Liens for taxes, assessments, governmental charges or levies, statutory Liens of landlords and Liens of carriers, warehousemen, mechanics and materialmen incurred in the ordinary course of business for sums not yet due or which are being actively contested in good faith by appropriate proceedings;

(c) Liens (other than Liens imposed on the Borrower or any of its Subsidiaries under ERISA) incurred or deposits made in the ordinary course of business (a) in connection with workers' compensation, unemployment insurance and other types of social security or (b) to secure (or to obtain letters of credit that secure) performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, performance bonds, sales contracts and other similar obligations; provided that, in each case, such Liens do not materially detract from the value of the property or assets of the Borrower or its Subsidiaries or materially impair the use thereof in the operation of the business of the Borrower or its Subsidiaries;

(d) Liens (i) securing Capital Lease Obligations, or (ii) placed on property acquired by the Borrower or any of its Subsidiaries (other than

property consisting of securities or constituting the assets of a business acquired in whole or in part from any Person or Persons) and existing at the time of the acquisition of such property, or (iii) placed on property being acquired or constructed by the Borrower or any of its Subsidiaries to secure the purchase price or cost thereof, or (iv) securing Indebtedness incurred to finance any acquisition or construction described in clauses (i) through (iii) immediately above and permitted under Section 6.01, provided that the Lien is confined to the property so acquired or constructed; and

(e) Liens extending, renewing or replacing any Lien permitted by clauses (a) and (d) above, provided that (i) such Lien shall not apply to any other property or assets of the Borrower or any Subsidiary, (ii) such extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof and (iii) that, at the time of and immediately after giving effect to such extension, renewal or replacement is in effect, no Default shall have occurred and be continuing.

### **6.3 Fundamental Changes.**

(a) The Borrower will not, nor will it permit any of its Subsidiaries to, enter into any transaction of merger or consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), except:

(i) any Subsidiary of the Borrower may be merged or consolidated with or into the Borrower or another Subsidiary, provided (A) that if any such transaction shall be between a Subsidiary and the Borrower, the Borrower shall be the continuing or surviving corporation, and (B) if any such transaction shall be between a Subsidiary and another Subsidiary, the surviving or continuing Subsidiary shall be a Subsidiary Guarantor; and

(ii) any merger or consolidation permitted under clause (iii) of paragraph (c) of this Section.

(b) The Borrower will not, nor will it permit any of its Subsidiaries to, convey, sell, lease, transfer or otherwise dispose of, in one transaction or a series of transactions, all or a substantial part of its business or property, whether now owned or hereafter acquired, except:

(i) any Subsidiary Guarantor of the Borrower may sell, lease, transfer or otherwise dispose of any or all of its property (upon voluntary liquidation or otherwise) to the Borrower or another Subsidiary Guarantor of the Borrower; and

(ii) the capital stock of any Subsidiary of the Borrower may be sold, transferred or otherwise disposed of to the Borrower or another Subsidiary Guarantor of the Borrower.

(c) The Borrower will not, nor will it permit any of its Subsidiaries to, acquire any business or property from, or capital stock of, or be a party to any acquisition of, any Person (whether by way of purchase of such assets or stock, by merger or consolidation or otherwise), except:

(i) for any merger or consolidation permitted under clause (i) of paragraph (a) of this Section;

(ii) for purchases of inventory and other property to be sold or used in the ordinary course of business and Investments permitted under Section 6.06(a); and

(iii) the Borrower or any Subsidiary Guarantor of the Borrower may acquire any business, and the related assets, of any other Person (whether by way of purchase of assets or stock, by merger or consolidation or otherwise), so long as:

[A] if such acquisition shall be effected by merger or consolidation involving the Borrower, the Borrower shall be the continuing or surviving entity;

[B] such acquisition (if by purchase of stock) shall be effected in such manner so that the acquired entity becomes a Subsidiary Guarantor of the Borrower;

[C] after giving effect to such acquisition (and the provisions of Section 1.03(c)) the Borrower and its Subsidiaries shall be in compliance with Section 6.10 ;

[D] the Borrower shall have delivered to the Administrative Agent a certificate of a Financial Officer in the form of Exhibit G showing calculations in reasonable detail to demonstrate compliance with clause (iii)[C] immediately above;

[E] the Borrower shall have obtained the prior written consent of the Required Lenders in the event that:

[I] with respect to any acquisition consummated during the period commencing on the Effective Date and ending on the last day of Borrower's fiscal year ending nearest to December 31, 2001 (a) the aggregate amount of cash expenditures in respect of such acquisition would exceed Ten Million Dollars (\$10,000,000), or (b) such acquisition would constitute the third (3<sup>rd</sup>) or greater acquisition to be consummated by the Borrower and/or any of its Subsidiaries (whether individually or collectively) during such period; and

[II] with respect to any acquisition consummated during Borrower's fiscal year ending nearest to December 31, 2002 and ending on the last day of such fiscal year (a) the aggregate amount of cash expenditures in respect of such acquisition would exceed Fifteen Million Dollars (\$15,000,000), or (b) such acquisition would constitute the third (3<sup>rd</sup>) or greater acquisition to be consummated by the Borrower and/or any of its Subsidiaries (whether individually or collectively) during such fiscal year; and

[III] with respect to any acquisition consummated after the end of Borrower's fiscal year ending nearest to December 31, 2002, such acquisition would require any payment in cash by the Borrower or any of its Subsidiaries; and

[F] immediately prior to such acquisition and after giving effect thereto, no Default shall have occurred and be continuing.

#### **6.4 Lines of Business.**

The Borrower will not, nor will it permit any of its Subsidiaries to, engage to any material extent in any business other than the business of manufacturing, distributing and selling components and assemblies for medical devices, batteries, capacitors and precision components and assemblies for select industrial and medical market segments.

#### **6.5 Restrictive Agreements.**

The Borrower will not, and will not permit any of its Subsidiaries to, enter into any agreement prohibiting:

(a) (i) the creation or assumption of any Lien in favor of the Administrative Agent and/or the Lenders upon its properties, revenues or assets, whether now owned or hereafter acquired; provided, the Borrower may, and may permit any of its Subsidiaries to, enter into any agreement restricting the right of Administrative Agent's and/or the Lenders' to make subject to a Lien any property to the extent (A) such property is subject to a security interest in favor of another Person, (B) the Indebtedness incurred by the Borrower or such Subsidiary is otherwise permitted pursuant to Section 6.01, and (C) the Lien in favor of such third Person is otherwise permitted pursuant to Section 6.02, or (ii) the ability of the Borrower or any Guarantor Subsidiary to amend or otherwise modify this Agreement or any other Loan Document; and

(b) any Subsidiary from making any payments, directly or indirectly, to the Borrower by way of dividends, advances, repayments of loans or advances, reimbursements of management and other intercompany charges, expenses and accruals or other returns on investments, or any other agreement or arrangement which restricts the ability of any such Subsidiary to make any payment, directly or indirectly, to the Borrower.

#### **6.6 Investments, Loans, Advances, Guarantees and Acquisitions; Hedging Agreements.**

(a) Investments, Etc. The Borrower will not, nor will it permit any of its Subsidiaries to, purchase, hold or acquire (including pursuant to any merger with any Person that was not a wholly owned Subsidiary prior to such merger) any capital stock, evidences of indebtedness or other securities (including any option, warrant or other right to acquire any of the foregoing) of, make or permit to exist any loans or advances to, Guarantee any obligations of, or make or permit to exist any investment or any other interest in, any other Person, or purchase or otherwise acquire (in one transaction or a series of transactions) any assets of any other Person constituting a business unit, except:

(i) investments existing on the date hereof and set forth in Part C of Schedule II;

(ii) Permitted Investments;

(iii) investments by the Borrower in the capital stock of its Subsidiaries;

(iv) loans or advances made by the Borrower to any Subsidiary Guarantor and made by any Subsidiary Guarantor to the Borrower or another Subsidiary Guarantor;

(v) Guarantees constituting Indebtedness permitted by Section 6.01; and

(vi) any transaction permitted under Section 6.03.

(b) Hedging Agreements. The Borrower will not, nor will it permit any of its Subsidiaries to, enter into any Hedging Agreement, other than Hedging Agreements entered into in the ordinary course of business to hedge or mitigate risks to which the Borrower or any Subsidiary is exposed in the conduct of its business or the management of its liabilities.

#### **6.7 Restricted Payments.**

The Borrower will not, nor will it permit any of its Subsidiaries to, declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment; provided (a) the Borrower may declare and pay dividends with respect to its capital stock payable (i) in additional shares of its common stock, (ii) in cash only if, and solely to the extent, the aggregate amount of cash dividends declared and paid by the Borrower for any period does not exceed the difference between: (A) fifty percent (50%) of the Net Income of the Borrower and its Subsidiaries for such

period, minus (B) the aggregate amount of cash paid (as dividends or otherwise) by the Borrower during such period pursuant to clause (b) immediately below, and (iii) in any combination of the foregoing, (b) in any fiscal year the Borrower may declare and pay cash dividends with respect to its capital stock, and/or may make payments of cash to any parent corporation or to Donaldson, Lufkin & Jenrette Securities Corporation, in an aggregate amount not to exceed the amount of advisory fees and retainer payable in such fiscal year by Technologies to Donaldson, Lufkin & Jenrette Securities Corporation pursuant to an agreement by and between Technologies and such party dated July 10, 1997 and as in effect on the Effective Date; provided, in no event shall the aggregate amount of cash dividends and cash payments made pursuant to this clause (b) exceed One Hundred Thousand Dollars (\$100,000) in any fiscal year of the Borrower, (c) the Borrower may make payments to its Affiliates only if, and solely to the extent, the transaction or transactions giving rise to such payments satisfy the requirements of Section 6.08, and (d) the Borrower may make payments to former participants of the Borrower's existing employee stock ownership plan qualified under ERISA (the "ESOP") in connection with the redemption of the securities of the Borrower held in such former participant's ESOP account, as permitted pursuant to the terms of the ESOP or as otherwise required by ERISA. Nothing herein shall be deemed to prohibit the payment of dividends by any Subsidiary of the Borrower to the Borrower or to any other Subsidiary Guarantor of the Borrower.

#### **6.8 Transactions with Affiliates.**

The Borrower will not, nor will it permit any of its Subsidiaries to, sell, lease or otherwise transfer any property or assets to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except (a) transactions in the ordinary course of business at prices and on terms and conditions not less favorable to the Borrower or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties, (b) transactions between or among the Borrower and its Subsidiaries not involving any other Affiliate and (c) any Restricted Payment permitted by Section 6.07.

#### **6.9 Sale and Lease-Back Transactions.**

The Borrower will not, nor will it permit any of its Subsidiaries to, enter into any arrangement, directly or indirectly, with any Person whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property which it intends to use for substantially the same purpose or purposes as the property being sold or transferred.

#### **6.10 Certain Financial Covenants.**

(a) Leverage Ratio. The Borrower will not permit the Leverage Ratio as at:

- (i) the last day of Borrower's fiscal year ending on December 30, 2000, to exceed 3.00 to 1.00;
- (ii) the last day of the Borrower's fiscal year ending on December 28, 2001, to exceed 2.75 to 1.00; and
- (iii) the last day of the Borrower's fiscal year ending on January 2, 2003, and as at each fiscal quarter thereafter, to exceed 2.50 to 1.00.

(b) Fixed Charges Coverage Ratio. The Borrower will not permit the Fixed Charges Coverage Ratio to be less than 1.25 to 1.00 as at the last day of any fiscal quarter ending after the Effective Date.

(c) Interest Coverage Ratio. The Borrower will not permit the Interest Coverage Ratio to be less than 2.50 to 1.00 as at the last day of any fiscal quarter ending after the Effective Date.

### **ARTICLE VII EVENTS OF DEFAULT**

If any of the following events ("Events of Default") shall occur:

(a) the Borrower shall fail to pay any principal of any Loan or Note or any reimbursement obligation in respect of any LC Disbursement when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) the Borrower shall fail to pay any interest on any Loan or Note or any fee or any other amount (other than an amount referred to in clause (a) of this Article) payable under this Agreement or under any other Loan Document, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of five (5) or more Business Days;

(c) any representation or warranty made or deemed made by or on behalf of the Borrower or any of its Subsidiaries in or in connection with this Agreement or any other Loan Document or any amendment or modification hereof or thereof, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with this Agreement or any other Loan Document or any amendment or modification hereof or thereof, shall prove to have been incorrect when made or deemed made;

(d) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in Section 5.02(a) or 5.03 (with respect to the Borrower's existence) or in ARTICLE VI;

(e) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in this Agreement (other than those specified in clauses (a), (b) or (d) of this Article) or any other Loan Document and such failure shall continue unremedied for a period of ten (10) or more Business Days after notice thereof from the Administrative Agent (given at the request of any Lender) to the Borrower;

(f) any Subsidiary Guarantor or Parent Guarantor shall fail to observe or perform any covenant, condition or agreements contained in any Loan Document to which it is a party, and such failure shall continue unremedied for a period of ten (10) or more Business Days after notice thereof from the Administrative Agent (given at the request of any Lender) to such Subsidiary Guarantor or Parent Guarantor;

(g) the Borrower or any of its Subsidiaries shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Indebtedness, the outstanding and unpaid principal amount of which at the time equals or exceeds One Million Dollars (\$1,000,000), when and as the same shall become due and payable;

(h) any event or condition occurs that results in any Indebtedness, the outstanding and unpaid principal amount of which at the time equals or exceeds One Million Dollars (\$1,000,000), becoming due prior to its scheduled maturity or that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of such Indebtedness or any trustee or agent on its or their behalf to cause such Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity;

(i) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the Borrower or any of its Subsidiaries or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any of its Subsidiaries or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for a period of sixty (60) or more days or an order or decree approving or ordering any of the foregoing shall be entered;

(j) the Borrower or any of its Subsidiaries shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (i) of this Article, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any of its Subsidiaries or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing;

(k) the Borrower or any of its Subsidiaries shall become unable, admit in writing its inability or fail generally to pay its debts as they become due;

(l) one or more judgments for the payment of money in an aggregate amount in excess of applicable insurance coverage of One Million Dollars (\$1,000,000) or more shall be rendered against the Borrower or any of its Subsidiaries or any combination thereof and the same shall remain undischarged for a period of thirty (30) consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of the Borrower or any of its Subsidiaries to enforce any such judgment;

(m) an ERISA Event shall have occurred that is reasonably likely to result in a liability or loss to the Borrower or any of its Subsidiaries in an amount in excess of One Million Dollars (\$1,000,000);

(n) a Change in Control shall occur; or

(o) any Loan Document or Lien granted thereunder shall terminate or cease to be effective (other than pursuant to its terms) or cease to be legally valid, binding and enforceable obligation of the Borrower, a Subsidiary Guarantor or a Parent Guarantor party thereto (other than as a result of any termination in accordance with the terms thereof); the Borrower, any Subsidiary Guarantor or Parent Guarantor party to any Loan Documents shall, directly or indirectly, contest in any manner the effectiveness of any such Loan Document or Lien granted thereunder or the validity, binding nature, or enforceability thereof; or any Lien shall cease to have the priority purported to be given under the applicable Loan Document; then, and in every such event (other than an event with respect to the Borrower described in clause (i) or (j) of this Article), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, take either or both of the following actions, at the same or different times: (i) terminate the Commitments, and thereupon the Commitments shall terminate immediately, and (ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; and in case of any event with respect to the Borrower described in clause (i) or (j) of this Article, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

## **ARTICLE VIII THE ADMINISTRATIVE AGENT**

Each of the Lenders and the Issuing Lender hereby irrevocably appoints the Administrative Agent as its agent hereunder and under the other Loan Documents and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof or thereof, together with such actions and powers as are reasonably incidental thereto.

The Person serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such Person and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent hereunder.

The Administrative Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that the Administrative Agent is required to exercise in writing by the Required Lenders, and (c) except as expressly set forth herein and in the other Loan Documents, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Subsidiaries that is communicated to or obtained by the bank serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders or in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by the Borrower or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document, or (v) the satisfaction of any condition set forth in ARTICLE IV or elsewhere herein or therein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

The Administrative Agent may resign at any time by notifying the Lenders, the Issuing Lender and the Borrower. Upon any such resignation, the Required Lenders shall have the right, with the prior written consent of the Borrower (which consent shall not be unreasonably withheld), to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent's resignation shall nonetheless become effective and (1) the retiring Administrative Agent shall be discharged from its duties and obligations hereunder and (2) the Required Lenders shall perform the duties of the Administrative Agent (and all payments and communications provided to be made by, to or through the Administrative Agent shall instead be made by or to each Lender directly) until such time as the Required Lenders appoint a successor agent as provided for above in this paragraph. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring (or retired) Administrative Agent and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder (if not already discharged therefrom as provided above in this paragraph). The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the Administrative Agent's resignation hereunder, the provisions of this Article and Section 9.03 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Administrative Agent.

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder.

Except as otherwise provided in Section 9.02(b) with respect to this Agreement, the Administrative Agent may, with the prior consent of the Required Lenders (but not otherwise), consent to any modification, supplement or waiver under any of the Loan Documents.

ARTICLE IX MISCELLANEOUS

9.1 Notices.

Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(a) if to the Borrower:

Wilson Greatbatch Ltd.  
10000 Wehrle Drive  
Clarence, New York 14031  
Tel: 716 759 5602  
Fax: 716 759 5614

Attn: Arthur J. Lalonde  
Senior Vice President, Finance and Treasurer

with a copy to:

Warren Buhle, Esq.  
Weil, Gotshal & Manges LLP  
767 Fifth Avenue  
New York, New York 10153  
Tel: 212 310 8898  
Fax: 212 310 8007

(b) if to the Administrative Agent:

Manufacturers and Traders Trust Company  
One Fountain Plaza  
12th Floor  
Buffalo, New York 14203  
Tel: 716 848 7392  
Fax: 716 848 7318

Attn: Shelley Drake  
Administrative Vice President

with a copy to:

William E. Mathias, Esq.  
Lippes, Silverstein, Mathias & Wexler LLP  
700 Guaranty Building  
28 Church Street  
Buffalo, New York 14202  
Tel: 716 853 5100  
Fax: 716 853 5199

(c) if to the Issuing Lender:

Manufacturers and Traders Trust Company  
One Fountain Plaza  
12th Floor  
Buffalo, New York 14203  
Tel: 716 848 7392  
Fax: 716 848 7318

Attn: Shelley Drake  
Administrative Vice President

with a copy to:

William E. Mathias, Esq.  
Lippes, Silverstein, Mathias & Wexler LLP  
700 Guaranty Building  
28 Church Street  
Buffalo, New York 14202  
Tel: 716 853 5100  
Fax: 716 853 5199

(d) if to a Lender, to it at its address (or teletype number) set forth in Schedule I.

Any party hereto may change its address or teletype number for notices and other communications hereunder by notice to the other parties hereto (or, in the case of any such change by a Lender, by notice to the Borrower and the Administrative Agent). All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt. Unless otherwise specified herein, each notice or other communication required or permitted to be given hereunder by the Borrower shall be given or made only by a Senior Executive Officer or Financial Officer of the Borrower.

## 9.2 Waivers; Amendments.

(a) No Deemed Waivers: Remedies Cumulative. No failure or delay by the Administrative Agent, the Issuing Lender or any Lender in exercising any right or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the Issuing Lender and the Lenders hereunder are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent, any Lender or the Issuing Lender may have had notice or knowledge of such Default at the time.

(b) Amendments. Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Lenders or by the Borrower and the Administrative Agent with the consent of the Required Lenders; provided that no such agreement shall:

(i) increase the Commitment of any Lender without the written consent of such Lender,

(ii) reduce the principal amount of any Loan or LC Disbursement or reduce the rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Lender affected thereby,

(iii) postpone the scheduled date of payment of the principal amount of any Loan or LC Disbursement, or any interest thereon, or any fees payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender affected thereby,

(iv) change Section 2.15(d) without the consent of each Lender affected thereby, or

(v) change any of the provisions of this Section or the percentage in the definition of the term "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender, and provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent or the Issuing Lender hereunder without the prior written consent of the Administrative Agent the Issuing Lender, as the case may be.

## 9.3 Expenses; Indemnity; Damage Waiver.

(a) Costs and Expenses. The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates, including the reasonable fees, charges and disbursements of counsel for the Administrative Agent, in connection with the syndication of the credit facilities provided for herein, the preparation and administration of this Agreement and the other Loan Documents or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable out-of-pocket expenses incurred by the Issuing Lender in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder, and (iii) all reasonable out-of-pocket expenses incurred by the Administrative Agent, the Issuing Lender or any Lender, including the reasonable fees, charges and disbursements of any counsel for the Administrative Agent, the Issuing Lender or any Lender, in connection with the enforcement or protection of its rights in connection with this Agreement and the other Loan Documents, including its rights under this Section, or in connection with the Loans made or Letters of Credit issued hereunder, including in connection with any workout, restructuring or negotiations in respect thereof.

(b) Indemnification by the Borrower. The Borrower shall indemnify the Administrative Agent, the Issuing Lender and each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and to hold each Indemnitee

harmless from, any and all losses, claims, damages, liabilities and related expenses, including the reasonable fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, any of the other Loan Documents or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or the consummation of the Transactions or any other transactions contemplated hereby, (ii) any Loan or Letter of Credit or the use of the proceeds therefrom (including any refusal by the Issuing Lender to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by the Borrower or any of its Subsidiaries, or any Environmental Liability related in any way to the Borrower or any of its Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee.

(c) Reimbursement by Lenders. To the extent that the Borrower fails to pay any amount required to be paid by it to the Administrative Agent or the Issuing Lender under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent or the Issuing Lender, as the case may be, such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent or the Issuing Lender in its capacity as such.

(d) Waiver of Consequential Damages; Etc. To the extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the Transactions, any Loan or Letter of Credit or the use of the proceeds thereof.

(e) Payments. All amounts due under this Section shall be payable promptly after written demand therefor.

#### **9.4 Successors and Assigns.**

(a) Assignments Generally. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the Issuing Lender and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Assignments by Lenders. Any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it); provided that

(i) except in the case of an assignment to a Lender or an Affiliate of a Lender, each of the Borrower and the Administrative Agent (and, in the case of an assignment of all or a portion of a Commitment or any Lender's obligations in respect of its LC Exposure, the Issuing Lender) must give their prior written consent to such assignment (which consent shall not be unreasonably withheld),

(ii) except in the case of an assignment to a Lender or an Affiliate of a Lender or an assignment of the entire remaining amount of the assigning Lender's Commitment, unless each of the Borrower and the Administrative Agent otherwise consent, which consent may be given or withheld in sole discretion of each such party, the amount of the Commitment of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent) shall not be less than (A) Ten Million Dollars (\$10,000,000), or (B) Three Million Dollars (\$3,000,000) if the Commitment of each other Lender equals or exceeds Ten Million Dollars (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent),

(iii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's Term Loan Commitment and Revolving Credit Commitment and of a proportionate part of the assigning Lender's rights and obligations under this Agreement,

(iv) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Acceptance, together with a processing and recordation fee of Three Thousand Five Hundred Dollars (\$3,500) payable by either or both of the assigning Lender and assignee as agreed to by such parties (which processing and recordation shall not be chargeable to, assessable against, or otherwise imposed upon, the Borrower), and

(v) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire;

provided further, that any consent of the Borrower otherwise required under this paragraph shall not be required if an Event of Default under

clause (a), (b), (i) or (j) of ARTICLE VII has occurred and is continuing. Upon acceptance and recording pursuant to paragraph (d) of this Section, from and after the effective date specified in each Assignment and Acceptance, the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.12, 2.13, 2.14 and 9.03). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this paragraph shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (e) of this Section.

(c) Maintenance of Register by the Administrative Agent. The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices in Buffalo, New York a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans and LC Disbursements owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent, the Issuing Lender, and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower, the Issuing Lender and any Lender, at any reasonable time and from time to time upon reasonable prior notice. Each change in the Register due to the assignment by or assumption by such Lender of any Commitment as evidenced by a duly executed Assignment and Acceptance delivered to the Administrative Agent, or due to the admission of a new Lender pursuant such new Lender's assumption of a Commitment from a present Lender as evidenced by a duly executed Assignment and Acceptance delivered to the Administrative Agent, shall be reflected in Schedule I.

(d) Effectiveness of Assignments. Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Acceptance and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(e) Participations. Any Lender may sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement and the other Loan Documents (including all or a portion of its Commitment and the Loans owing to it); provided that (i) except in the case of the sale of a participation to a Lender or an Affiliate of a Lender, the Borrower must give its prior written consent to such sale (which consent shall not be unreasonably withheld), (ii) such Lender's obligations under this Agreement and the other Loan Documents shall remain unchanged, (iii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, and (iv) the Borrower, the Administrative Agent, the Issuing Lender and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and the other Loan Documents. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and the other Loan Documents and to approve any amendment, modification or waiver of any provision of this Agreement or any other Loan Document; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first *proviso* to Section 9.02(b) that affects such Participant. Subject to paragraph (f) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.12, 2.13 and 2.14 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section.

(f) Limitations on Rights of Participants. A Participant shall not be entitled to receive any greater payment under Section 2.12 or 2.14 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.14.

(g) Certain Pledges. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any such pledge or assignment to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such assignee for such Lender as a party hereto.

(h) No Assignments to the Borrower or Affiliates. Anything in this Section to the contrary notwithstanding, no Lender may assign or participate any interest in any Loan or LC Exposure held by it hereunder to the Borrower or any of its Affiliates or Subsidiaries without the prior consent of each Lender.

## **9.5 Survival.**

All covenants, agreements, representations and warranties made by the Borrower herein and in the certificates or other instruments delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of this Agreement and the making of any Loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent, the Issuing Lender or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this

Agreement is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not expired or terminated. The provisions of Sections 2.12, 2.13, 2.14 and 9.03 and Article VIII shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement or any provision hereof.

#### **9.6 Counterparts; Integration; Effectiveness.**

This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract between and among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page to this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

#### **9.7 Severability.**

Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

#### **9.8 Right of Setoff.**

If an Event of Default shall have occurred and be continuing, subject to the provisions of Section 2.15 each Lender is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower now or hereafter existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement and although such obligations may be unmatured. The rights of each Lender under this Section are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

#### **9.9 Governing Law; Jurisdiction: Etc.**

(a) Governing Law. This Agreement shall be construed in accordance with and governed by the law of the State of New York, without regard to its principles of conflicts of laws.

(b) Submission to Jurisdiction. The Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in Erie County and of the United States District Court of the Western District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Administrative Agent, the Issuing Lender or any Lender may otherwise have to bring any action or proceeding relating to this Agreement against the Borrower or its properties in the courts of any jurisdiction.

(c) Waiver of Venue. The Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Service of Process. Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

#### **9.10 WAIVER OF JURY TRIAL.**

EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT

OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

### 9.11 Headings.

Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

### 9.12 Treatment of Certain Information: Confidentiality.

(a) Treatment of Certain Information. The Borrower acknowledges that from time to time financial advisory, investment banking and other services may be offered or provided to the Borrower or one or more of its Subsidiaries (in connection with this Agreement or otherwise) by any Lender or by one or more subsidiaries or affiliates of such Lender and the Borrower hereby authorizes each Lender to share any information delivered to such Lender by the Borrower and its Subsidiaries pursuant to this Agreement, or in connection with the decision of such Lender to enter into this Agreement, to any such subsidiary or affiliate, it being understood that any such subsidiary or affiliate receiving such information shall be bound by the provisions of paragraph (b) of this Section as if it were a Lender hereunder. Such authorization shall survive the repayment of the Loans, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement or any provision hereof.

(b) Confidentiality. Each of the Administrative Agent, the Issuing Lender and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (i) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (ii) to the extent requested by any regulatory authority, (iii) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (iv) to any other party to this Agreement, (v) in connection with the exercise of any remedies hereunder or under any other Loan Document or any suit, action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (vi) subject to an agreement containing provisions substantially the same as those of this paragraph, to any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement, (vii) with the consent of the Borrower or (viii) to the extent such Information (A) becomes publicly available other than as a result of a breach of this paragraph or (B) becomes available to the Administrative Agent, the Issuing Lender or any Lender on a nonconfidential basis from a source other than the Borrower. For the purposes of this paragraph, "Information" means all information received from the Borrower relating to the Borrower or its business, other than any such information that is available to the Administrative Agent, the Issuing Lender or any Lender on a nonconfidential basis prior to disclosure by the Borrower; provided that, in the case of information received from the Borrower after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

### WILSON GREATBATCH LTD.

By: \_\_\_\_\_

Name: Arthur J. Lalonde

Title: Senior Vice President, Finance and Treasurer

### LENDERS

**MANUFACTURERS AND TRADERS TRUST COMPANY**, as Administrative Agent

By: \_\_\_\_\_

Name: Shelley Drake

Title: Administrative Vice President

**MANUFACTURERS AND TRADERS TRUST COMPANY**, for itself and as Issuing Lender

By: \_\_\_\_\_

Name: Shelley Drake

Title: Administrative Vice President

**Commitments**

[See definitions of "Commitment" and "Lenders" in Section 1.01 ]

Lender	Revolving Credit Commitment	Term Loan Commitment	Commitment	Applicable Percentage
M&T One Fountain Plaza 12 <sup>th</sup> Floor Buffalo, NewYork 14203	\$20,000,000.00	\$40,000,000.00	\$60,000,000.00	100%

**SCHEDULE II**

**Existing Indebtedness, Liens and Investments**

[See Section 4.01, Section 5.04, Section 5.07, Section 6.01(c), Section 6.02(a) and Section 6.06(a)(i)]

Part A - Indebtedness

Part B - Liens

Part C - Investments

Part D - Patents, Trademarks and Tradenames

Part E - Subsidiaries

Part F - Insurance

**SCHEDULE III**

**Litigation**

[See definition of "Disclosed Matters" in Section 1.01 and Section 3.06]

**SCHEDULE IV**

**Environmental Matters**

[See definition of "Disclosed Matters" in Section 1.01 and Section 3.06]

**SCHEDULE V**

**Existing Letters of Credit**

<u>Letter of Credit No.</u>	<u>Issuer</u>	<u>Face Amount</u>	<u>Expire Date</u>
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**EXHIBIT A**

[Form of Assignment and Acceptance]

**ASSIGNMENT AND ACCEPTANCE**

Reference is made to the Credit Agreement dated as of January 12, 2001 (as amended and in effect on the date hereof, the "Credit

Agreement”), by and among Wilson Greatbatch Ltd., the Lenders named therein and Manufacturers and Traders Trust Company, as Administrative Agent for the Lenders. Terms defined in the Credit Agreement are used herein with the same meanings.

The Assignor named below hereby sells and assigns, without recourse, to the Assignee named below, and the Assignee hereby purchases and assumes, without recourse, from the Assignor, effective as of the Assignment Date set forth below, the interests set forth below (the “Assigned Interest”) in the Assignor’s rights and obligations under the Credit Agreement, including the interests set forth below in the Commitment of the Assignor on the Assignment Date and Loans owing to the Assignor which are outstanding on the Assignment Date, together with unpaid interest accrued on the assigned Loans to the Assignment Date, the participations in Letters of Credit and LC Disbursements held by the Assignor on the Assignment Date, and the amount, if any, set forth below of the fees accrued to the Assignment Date for account of the Assignor. The Assignee hereby acknowledges receipt of a copy of the Credit Agreement. From and after the Assignment Date (i) the Assignee shall be a party to and be bound by the provisions of the Credit Agreement and, to the extent of the interests assigned by this Assignment and Acceptance, have the rights and obligations of a Lender thereunder and (ii) the Assignor shall, to the extent of the interests assigned by this Assignment and Acceptance, relinquish its rights and be released from its obligations under the Credit Agreement.

This Assignment and Acceptance is being delivered to the Administrative Agent together with (i) if the Assignee is a Foreign Lender, any documentation required by applicable law to be delivered by the Assignee in order to permit all payments received by such Foreign Lender hereunder to be made without withholding, duly completed and executed by the Assignee, and (ii) if the Assignee is not already a Lender under the Credit Agreement, an Administrative Questionnaire in the form supplied by the Administrative Agent, duly completed by the Assignee. The [Assignee/Assignor] shall pay the fee payable to the Administrative Agent pursuant to Section 9.04(b)(iv) of the Credit Agreement.

This Assignment and Acceptance shall be governed by and construed in accordance with the laws of the State of New York.

Date of Assignment:

Legal Name of Assignor:

Legal Name of Assignee:

Assignee's Address for Notices:

Effective Date of Assignment (“Assignment Date”) <sup>1</sup>:

Facility -----	Principal Amount Assigned -----
Commitment Assigned:	\$
Syndicated Loans:	
Fees Assigned (if any):	

The terms set forth above and below are hereby agreed to:

[NAME OF ASSIGNOR] , as Assignor[NAME OF ASSIGNEE], as Assignee

By: \_\_\_\_\_

By: \_\_\_\_\_

Name:  
Title:

Name:  
Title:

The undersigned hereby consent to the within assignment <sup>2</sup>:

WILSON GREATBATCH LTD.

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_

Name:

Title:

\_\_\_\_\_

<sup>1</sup> Must be at least five (5) Business Days after execution by Assignor and Assignee.

<sup>2</sup> Consents to be included to the extent required by Section 9.04(b) of the Credit Agreement.

**EXHIBIT B**

[Form of Opinion of Counsel to the Borrower]

**EXHIBIT C**

[Form of Term Note]

**EXHIBIT D**

[Form of Revolving Credit Note]

**EXHIBIT E**

[Form of Revolving Credit Borrowing Request]

**EXHIBIT F1**

[Form of Interest Election Request for Term Loan Borrowing]

**EXHIBIT F2**

[Form of Interest Election Request for Revolving Credit Borrowing]

**EXHIBIT G**

[Form of Borrower Compliance Certificate]

**SUBSIDIARIES OF WILSON GREATBATCH TECHNOLOGIES, INC.**

CORPORATION

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INCORPORATED

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WGL Intermediate Holdings, Inc.  
(direct subsidiary of Wilson  
Greatbatch Technologies, Inc.)

Delaware

Wilson Greatbatch Ltd.  
(direct subsidiary of WGL  
Intermediate Holdings, Inc.)

New York

Greatbatch-Hittman, Inc.

Delaware

Battery Engineering, Inc.

Massachusetts

Wilson Greatbatch Foreign

Barbados

Sales Corporation

(direct subsidiaries of Wilson  
Greatbatch Ltd.)