GREATBATCH, INC.

FORM 10-Q
(Quarterly Report)

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Address	9645 WEHRLE DRIVE
	CLARENCE, New York 14031
Telephone	716-759-5600
CIK	0001114483
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U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarter ended September 29, 2006

Commission File Number 1-16137

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

Delaware
(State of incorporation)

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

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

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

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

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

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

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

The number of shares outstanding of the Company's common stock, $0.001 par value per share, as of November 7, 2006 was: 22,013,180 shares.

GREATBATCH, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

ASSETS	September 29, 2006	December 30, 2005
Current assets:		
Cash and cash equivalents	$ 55,792	$ 46,403
Short-term investments	72,426	65,746
Accounts receivable, net of allowance of $540 in 2006 and $450 in 2005	35,856	29,997
Inventories	54,657	45,184
Refundable income taxes	--	928
Deferred income taxes	5,635	6,257
Prepaid expenses and other current assets	3,074	1,488
Total current assets	227,440	196,003
Property, plant, and equipment, net	92,090	97,705
Amortizing intangible assets, net	29,027	31,891
Trademark and names	28,252	28,252
Goodwill	155,039	155,039
Other assets	3,449	4,021
Total assets	$ 535,297	$ 512,911
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 13,697	$ 13,678
Accrued expenses and other current liabilities	23,649	29,903
Current portion of long-term debt	--	464
Total current liabilities	37,346	44,045
Convertible subordinated notes	170,000	170,000
Deferred income taxes	34,468	30,261
Total liabilities	241,814	244,306
Stockholders' equity:		
Preferred stock, $0.001 par value, authorized 100,000,000 shares; no shares issued or outstanding in 2006 or 2005	--	--
Common stock, $0.001 par value, authorized 100,000,000 shares; 22,013,180 shares issued and outstanding in 2006 and 21,658,134 shares issued and outstanding in 2005	22	22
Additional paid-in capital	223,034	215,614
Retained earnings	67,771	53,039
Accumulated other comprehensive income (loss)	2,656	(70)
Total stockholders' equity	293,483	268,605
Total liabilities and stockholders' equity	$ 535,297	$ 512,911

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

GREATBATCH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME - Unaudited
(in thousands except per share data)

	Three months ended September 29, 2006	Three months ended September 30, 2005	Nine months ended September 29, 2006	Nine months ended September 30, 2005
Sales	$ 69,294	$ 62,358	$ 207,999	$ 182,240
Cost and expenses:				
Cost of sales - excluding amortization of intangible assets	42,709	38,178	125,087	112,154
Cost of sales - amortization of intangible assets	948	967	2,864	2,883
Selling, general and administrative expenses	9,311	8,842	28,191	24,089
Research, development and engineering costs, net	6,022	5,124	18,062	13,182
Other operating expense, net	6,239	7,818	12,551	14,207
Operating income	4,065	1,429	21,244	15,725
Interest expense	1,135	1,154	3,433	3,476
Interest income	(1,521)	(796)	(4,066)	(2,024)
Other (income) expense, net	171	(9)	51	(69)
Income before provision for income taxes	4,280	1,080	21,826	14,342
Provision for income taxes	1,041	324	7,094	4,303
Net income	$ 3,239	$ 756	$ 14,732	$ 10,039
Earnings per share:				
Basic	$ 0.15	$ 0.03	$ 0.68	$ 0.47
Diluted	$ 0.15	$ 0.03	$ 0.65	$ 0.46
Weighted average shares outstanding:				
Basic	21,816	21,621	21,788	21,559
Diluted	21,983	21,895	26,176	21,740
Comprehensive income:				
Net income	$ 3,239	$ 756	$ 14,732	$ 10,039
Net unrealized gain (loss) on available-for-sale securities	(96)	41	2,726	(60)
Comprehensive income	$ 3,143	$ 797	$ 17,458	$ 9,979

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

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

	Nine months ended	
	September 29, 2006	September 30, 2005
Cash flows from operating activities:		
Net income	$ 14,732	$ 10,039
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,492	14,038
Stock-based compensation	6,603	2,468
Deferred income taxes	4,207	5,934
Loss on disposal of assets	5,273	5,258
Changes in operating assets and liabilities:		
Accounts receivable	(5,859)	(10,312)
Inventories	(9,473)	(2,130)
Prepaid expenses and other current assets	(1,586)	(796)
Accounts payable	1,293	3,327
Accrued expenses and other current liabilities	(5,048)	6,718
Income taxes	121	(1,712)
Net cash provided by operating activities	24,755	32,832
Cash flows from investing activities:		
Short-term investments:		
Purchases	(29,846)	(63,178)
Proceeds from dispositions	26,532	58,043
Acquisition of property, plant and equipment	(12,060)	(22,690)
Proceeds from sale of assets	39	82
Decrease (increase) in other assets	19	(401)
Net cash used in investing activities	(15,316)	(28,144)
Cash flows from financing activities:		
Principal payments of long-term debt	(464)	(890)
Payment of debt issue costs	--	(213)
Proceeds from exercise of stock options and stock issued	414	936
Net cash used in financing activities	(50)	(167)
Net increase in cash and cash equivalents	9,389	4,521
Cash and cash equivalents, beginning of year	46,403	34,795
Cash and cash equivalents, end of period	$ 55,792	$ 39,316

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Unaudited

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information (Accounting Principles Board Opinion ("APB") No. 28, Interim Financial Reporting) and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. Operating results for interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole. In the opinion of management, the condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results of Greatbatch, Inc. (the "Company") for the periods presented. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, sales, expenses, and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from these estimates. The December 30, 2005 condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. For further information, refer to the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 30, 2005.

The Company utilizes a fifty-two, fifty-three week fiscal year ending on the Friday nearest December 31st. For 52-week years, each quarter contains 13 weeks. The third quarter of 2006 and 2005 ended on September 29 and September 30, respectively. The Company has revised its Condensed Consolidated Statement of Operations and Comprehensive Income to eliminate presentation of gross profit effective December 31, 2005. At the same time, the Company has associated the amortization expense of intangible assets with cost of sales.

2. STOCK-BASED COMPENSATION

Beginning in fiscal year 2006, the Company adopted the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123(R)"), and related Securities and Exchange Commission ("SEC") rules included in Staff Accounting Bulletin ("SAB") No. 107, on a modified prospective basis. Under this method, the Company began recognizing compensation cost, beginning in fiscal year 2006, related to 1) all share-based payments (stock options and restricted stock awards) granted prior to but not yet vested as of the beginning of fiscal year 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, Accounting for Stock-Based Compensation, and 2) all share-based payments (stock options, restricted stock and restricted stock unit awards) granted subsequent to the beginning of fiscal year 2006 based on the grant-date fair value estimated in accordance with the provisions of SFAS No.123(R). SFAS No. 123(R) also amends SFAS No. 95, Statement of Cash Flows, to require excess tax benefits that had previously been reflected as cash flows from operating activities be reflected as cash flows from financing activities.

Compensation cost for service-based stock options and restricted stock awards is recognized ratably over the applicable vesting period. Compensation cost for performance-based stock options and restricted stock units is reassessed each period and recognized based upon the probability that the performance targets will be achieved. The Company utilizes the Black-Scholes option pricing model to estimate the fair value of stock options granted.

Compensation costs related to share-based payments for the three months ended September 29, 2006 totaled $1.6 million ($1.1 million net of tax or $0.05 per diluted share) and $4.2 million ($2.8 million net of tax or $0.11 per diluted share) for the nine months ended September 29, 2006. These amounts include $0.6 million and $1.5 million for the three and nine months ended September 29, 2006, respectively, for accelerated vesting for certain retirement-eligible employees. The incremental cost of expensing stock options under SFAS No. 123(R) for the three and nine months ended September 29, 2006 was $1.1 million ($0.7 million net of tax) and $2.9 million ($2.0 million net of tax), respectively. Stock-based compensation expense included in the Condensed Consolidated Statement of Cash Flows includes costs recognized for stock options, restricted stock, restricted stock units and the annual share contribution to the 401(k) Plan.

During the third quarter of 2006, the Board of Directors approved the grant of 183,648 shares of performance based non-qualified stock options. The performance metrics for these awards cover a three-year performance period beginning in 2006 and include the achievement of revenue, operating earnings per share and operating cash flow targets. Compensation expense related to these awards amounted to $0.07 million during the third quarter of 2006.

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

In November 2005, the FASB issued FSP No. FAS 123(R)-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards. This FSP provides an elective alternative simplified method for calculating the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123(R). Companies may take up to one year from the effective date of the FSP to evaluate the available transition alternatives and make a one-time election as to which method to adopt. The Company is currently in the process of evaluating the alternative methods of calculating the pool of excess tax benefits.

Stock Options

Summary of Plans

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

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

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

The Company's 2005 Stock Incentive Plan ("2005 Plan") authorizes the issuance of up to 1,000,000 shares of equity incentive awards including nonqualified and incentive stock options to purchase the Company's common stock, subject to the terms of the plan. The stock options granted under the 2005 Plan generally vest over a four to five year period and may vary depending upon the achievement of certain performance targets as determined by the Board of Directors and the terms of each specific grant. The stock options expire 10 years from the date of grant. Stock options are granted at exercise prices equal to or greater than the fair value of the Company's common stock at the date of grant.

As of September 29, 2006, 431,478 shares were available for future grants of options under all of the above plans.

Fair Value

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

Stock Option Activity

The following table summarizes stock option activity related to the Company's plans for the nine months ended September 29, 2006:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value(1) (in millions)
Outstanding at December 30, 2005	1,397,160	$ 23.16		
Granted	473,170	23.87		
Exercised	(45,475)	9.09		
Forfeited or Expired	(36,485)	25.44		
Outstanding at September 29, 2006	1,788,370	$ 23.66	7.4	$ 3.6
Exercisable at September 29, 2006	859,552	$ 24.17	7.0	$ 2.6

(1) Intrinsic value is calculated for in-the-money options (exercise price less than market price) outstanding and/or exercisable as the difference between the market price of our common shares as of September 29, 2006 ($22.62) and the weighted average exercise price of the underlying options ($17.42/$13.35), multiplied by the number of options outstanding and/or exercisable (686,939 shares/284,942 shares).

The weighted-average fair value and assumptions used to value options granted in 2006 and 2005 are as follows:

	Nine months ended September 29, 2006	Nine months ended September 30, 2005
Weighted-average fair value	$10.85	$9.85
Risk-free interest rate	4.74%	3.94%
Expected volatility	42.5%	46.2%
Expected life (in years)	5.4	5.0
Expected dividend yield	0%	0%

The total intrinsic value of stock options exercised during the nine months ended September 29, 2006 was $0.7 million ($0.9 million for 2005). Cash received from the exercise of those options was $0.4 million ($0.9 million for 2005). The actual tax benefit realized from stock option exercises for the nine months ended September 29, 2006 was $0.06 million ($0.2 million for 2005). Proceeds from the exercise of stock options under stock option plans are credited to common stock at par value and the excess is credited to additional paid-in capital.

As of September 29, 2006, $7.2 million of unrecognized compensation cost related to non-vested stock options is expected to be recognized over a weighted-average period of approximately 4 years.

Pro Forma Information under SFAS No. 123 for Periods Prior to 2006

Prior to the adoption of SFAS No. 123(R), we accounted for stock options to employees in accordance with APB No. 25, Accounting for Stock Issued to Employees, and related interpretations. We also provided the disclosures required under SFAS No. 123, as amended by SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosures. As a result, no expense was reflected in our net income for the three and nine month periods ended September 30, 2005 for stock options, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. However, stock-based compensation expense was recognized for restricted stock awards.

The following table provides the Company's net income and earnings per share as if the fair value based method had been applied to all outstanding and unvested awards for the comparable prior year periods (in thousands except per share data):

	September 30, 2005	
	Three months ended	Nine months ended
Net income as reported	$756	$10,039
Add: Stock-based employee compensation cost included in net income as reported, net of related tax effects	714	1,728
Deduct: Stock-based employee compensation cost determined using the fair value based method, net of related tax effects	1,259	3,278
Pro forma net income	$211	$8,489
Earnings per share:		
Basic - as reported	$0.03	$0.47
Basic - pro forma	$0.01	$0.39
Diluted - as reported	$0.03	$0.46
Diluted - pro forma	$0.01	$0.39

Restricted Stock and Restricted Stock Units

Summary of Plans

The Company's 2002 Restricted Stock Plan authorizes the issuance of stock awards to employees. The number of shares that are reserved and may be issued under the plan cannot exceed 200,000. Restricted stock awards are either time-vested or performance-vested based on the terms of each individual award agreement. Time-vested restricted stock vests 50% on the first anniversary of the date of the award and 50% on the second anniversary of the date of the award. Performance-vested restricted stock vests upon the achievement of certain annual diluted earnings per share targets by the company, or the seventh anniversary date of the award.

The Company's 2005 Plan authorizes the issuance of restricted stock, restricted stock units and stock bonuses of up to 400,000 shares, subject to the terms of the plan with an overall limit on awards of 1,000,000 shares. Time-vested restricted stock granted under the 2005 Plan generally vest 50% on the second anniversary of the date of the award and 25% on the third and fourth anniversaries of the date of the award. Performance-vested restricted stock granted under the 2005 Plan vests upon the achievement of certain annual diluted earnings per share targets by the company, or the seventh anniversary date of the award. Performance-vested restricted stock units granted under the 2005 Plan vest upon the completion of Board approved strategic initiatives.

As of September 29, 2006, there were 349,074 shares available for future grants of restricted stock, restricted stock units or stock bonuses under the 2002 and 2005 plans, subject to the overall limit imposed by the 2005 Plan.

Restricted Stock and Restricted Stock Unit Activity

The following table summarizes restricted stock and restricted stock unit activity related to the Company's plans for the nine months ended September 29, 2006:

	Number of Restricted Stock and Restricted Units	Weighted Average Grant Date Fair Value
Nonvested at December 30, 2005	93,956	$ 22.46
Shares granted	145,126	23.25
Shares vested	-	-
Shares forfeited	(3,641)	21.50
Nonvested at September 29, 2006	235,441	22.96

There were no shares of restricted stock or restricted stock units that vested during the nine months ended September 29, 2006 or September 30, 2005. As of September 29, 2006, there was $3.7 million of total unrecognized compensation cost related to the restricted stock and restricted stock unit awards. That cost is expected to be recognized over a weighted-average period of approximately 3 years.

3. SUPPLEMENTAL CASH FLOW INFORMATION

	Nine months ended September 29, 2006	Nine months ended September 30, 2005
Noncash investing and financing activities:	(in thousands)	
Net unrealized gain (loss) on available-for-sale securities	$ 2,726	$ (60)
Common stock contributed to 401(k) Plan	2,780	2,729
Property, plant and equipment purchases included in accounts payable	619	2,268
Cash paid during the period for:		
Interest	$ 1,960	$ 1,955
Income taxes	2,769	60

4. SHORT-TERM INVESTMENTS

Short-term investments at September 29, 2006 and December 30, 2005 are comprised of the following (in thousands):

As of September 29, 2006	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Available-for-sale:				
Equity Securities	$ 291	$ 3,292	$ (15)	$ 3,568
Auction Rate Securities and Other	68,858	-	-	68,858
Total available for sale securities	$ 69,149	$ 3,292	$ (15)	$ 72,426
As of December 30, 2005				
Available-for-sale:				
Equity Securities	$ 276	$ -	$ (74)	$ 202
Auction Rate Securities and Other	65,544	-	-	65,544
Total available for sale securities	$ 65,820	$ -	$ (74)	$ 65,746

As prescribed in SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, during the second quarter of 2006, the Company classified an equity security investment as available-for-sale, which was previously accounted for under the cost method in accordance with APB No. 18, The Equity Method of Accounting for Investments in Common Stock, as the investment now has a readily determinable fair value due to the associated Company's stock offering. This resulted in an unrealized gain of $3.3 million ($2.7 million net of tax) which was recorded within accumulated other comprehensive income, net of tax, for the nine month period ended September 29, 2006.

5. INVENTORIES

Inventories are comprised of the following (in thousands):

	September 29, 2006	December 30, 2005
Raw materials	$ 28,557	$ 24,864
Work-in-process	12,894	11,266
Finished goods	13,206	9,054
Total	$ 54,657	$ 45,184

6. AMORTIZING INTANGIBLE ASSETS

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

As of September 29, 2006	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortizing intangible assets:			
Patented technology	$21,462	$(12,902)	$ 8,560
Unpatented technology	30,886	(10,419)	20,467
Other	1,340	(1,340)	-
	$53,688	$(24,661)	$29,027
As of December 30, 2005			
Amortizing intangible assets:			
Patented technology	$21,462	$(11,738)	$ 9,724
Unpatented technology	30,886	(8,750)	22,136
Other	1,340	(1,309)	31
	$53,688	$(21,797)	$31,891

Aggregate amortization expense for the third quarter of 2006 and 2005 was $0.9 million and $1.0 million, respectively, and $2.9 million each for the nine months ended September 29, 2006 and September 30, 2005. Annual amortization expense is estimated to be $0.9 million for the remainder of 2006, $3.8 million for 2007 and 2008, $3.2 million for 2009, and $2.7 million for 2010 and 2011.

7. DEBT

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

	September 29, 2006	December 30, 2005
2.25% convertible subordinated notes, due 2013	$170,000	$170,000
Capital lease obligations	-	464
	170,000	170,464
Less current portion	-	(464)
Total long-term debt	$170,000	$170,000

Revolving Line of Credit

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

8. EARNINGS PER SHARE

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

	Three months ended		Nine months ended	
	September 29, 2006	September 30, 2005	September 29, 2006	September 30, 2005
Numerator for basic earnings per share:				
Net Income	$ 3,239	$ 756	$ 14,732	$ 10,039
Effect of dilutive securities:				
Interest expense on convertible notes and related deferred financing fees, net of tax	-	-	2,264	-
Numerator for diluted earnings per share	$ 3,239	$ 756	$ 16,996	$ 10,039
Denominator for basic earnings per share:				
Weighted average shares outstanding	21,816	21,621	21,788	21,559
Effect of dilutive securities:				
Convertible notes	-	-	4,219	-
Stock options and unvested restricted stock	167	274	169	181
Dilutive potential common shares	167	274	4,388	181
Denominator for diluted earnings per share	21,983	21,895	26,176	21,740
Basic earnings per share	$ 0.15	$ 0.03	$ 0.68	$ 0.47
Diluted earnings per share	$ 0.15	$ 0.03	$ 0.65	$ 0.46

The diluted weighted average share calculations do not include 1,193,449 stock options for the three and nine months ended September 29, 2006 and 670,336 and 900,618 stock options for the three and nine months ended September 30, 2005, respectively, as they are not dilutive to the earnings per share calculations. Additionally, the diluted weighted average share calculations for the three months ended September 29, 2006 and the three and nine months ended September 30, 2005 do not include 4,219,409 shares related to the convertible subordinated notes, as they are not dilutive to the earnings per share calculations.

9. COMPREHENSIVE INCOME

The Company's comprehensive income includes net income and the net unrealized gain (loss) on its available-for-sale securities. The net unrealized gain (loss) on available-for-sale securities reported on the Condensed Consolidated Statements of Operations and Comprehensive Income are shown net of deferred income tax benefit of $0.06 million and tax expense of $0.6 million for the three and nine month periods of 2006, respectively, and deferred income tax expense of $0.02 million and tax benefit of $0.03 million in the three and nine month periods of 2005, respectively.

10. COMMITMENTS AND CONTINGENCIES

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

As reported in the Company's 2005 first quarter Form 10-Q, on May 2, 2005, a complaint was filed against the Company by a developer of an implantable drug delivery device in the United States Federal District Court for the Central District of California. On May 20, 2005, the parties entered into a settlement agreement under which the Company undertook certain obligations including the performance of certain additional development tasks for a limited period of time. On June 2, 2005, the Court ordered the complaint dismissed without prejudice. During the second quarter of 2006, a letter was received from the developer claiming that the Company was in breach of the settlement agreement. The Company asserted a counter-position that the developer also breached the settlement agreement and initiated the mandatory arbitration process as allowed for under the settlement agreement. During the third quarter of 2006, this dispute between the developer and the Company was settled and each party executed a legally binding release. All costs and payments associated with this resolution had been previously accrued under the May 20, 2005 settlement agreement and no further charges are anticipated.

Product Warranties - The Company generally warrants that its products will meet customer specifications and will be free from defects in materials and workmanship. The Company accrues its estimated exposure to warranty claims based upon recent historical experience and other specific information as it becomes available.

The change in aggregate product warranty liability for the quarter ended September 29, 2006 is as follows (in thousands):

Beginning balance at June 30, 2006	$ 1,711
Additions to warranty reserve	559
Warranty claims paid	(399)
Ending balance at September 29, 2006	$ 1,871

Purchase Commitments - In the normal course of business, the Company makes routine purchase commitments (primarily equipment and raw material purchases) in order to maintain the technological leadership of its manufacturing facilities and meet the needs of its customers. As of September 29, 2006, the total contractual obligation related to such expenditures is $8.6 million and will be financed by existing cash, short-term investments, or cash generated from operations.

11. BUSINESS SEGMENT INFORMATION

The Company operates its business in two reportable segments: Implantable Medical Components ("IMC") and Electrochem Commercial Power ("ECP"). The IMC segment designs and manufactures critical components used in implantable medical devices. The principal components are batteries, capacitors, filtered feedthroughs, enclosures and precision components. The principal medical devices are pacemakers, defibrillators and neurostimulators. The ECP segment designs and manufactures high performance batteries and battery packs; principal markets for these products are for oil and gas exploration, oceanographic equipment, and aerospace.

The Company defines segment income from operations as sales less cost of sales, including amortization, and expenses attributable to segment-specific selling, general, administrative, research, development, engineering and other operating expenses. Segment income also includes a portion of non-segment specific selling, general, administrative, research, development and engineering expenses based on allocations appropriate to the expense categories. The remaining unallocated operating expenses are primarily corporate headquarters and administrative function expenses. The unallocated operating expenses along with other income and expense are not allocated to reportable segments. Transactions between the two segments are not significant.

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

	Three months ended		Nine months ended	
Sales:	September 29, 2006	September 30, 2005	September 29, 2006	September 30, 2005
IMC				
ICD batteries	$ 11,456	$ 11,345	$ 35,129	$ 34,783
Pacemaker and other batteries	4,439	5,424	16,156	16,917
ICD capacitors	4,499	5,349	13,406	15,600
Feedthroughs	17,355	16,386	47,944	45,927
Enclosures	5,698	6,203	19,143	18,769
Other medical	13,560	9,378	42,565	24,740
Total IMC	57,007	54,085	174,343	156,736
ECP	12,287	8,273	33,656	25,504
Total sales	$ 69,294	$ 62,358	$ 207,999	$ 182,240
Segment income from operations:				
IMC	$ 3,476	$ 3,383	$ 23,144	$ 20,744
ECP	3,976	1,992	10,061	6,300
Total segment income from operations	7,452	5,375	33,205	27,044
Unallocated operating expenses	(3,387)	(3,946)	(11,961)	(11,319)
Operating income as reported	4,065	1,429	21,244	15,725
Unallocated other income (expense)	215	(349)	582	(1,383)
Income before provision for income taxes as reported	$ 4,280	$ 1,080	$ 21,826	$ 14,342

The carrying amount of goodwill at September 29, 2006 and December 30, 2005 for IMC was $152.4 million and $2.6 million for ECP.

12. OTHER OPERATING EXPENSE

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

	Three months ended		Nine months ended	
	September 29, 2006	September 30, 2005	September 29, 2006	September 30, 2005
(a) Alden facility consolidation	$ -	$ 1,428	$ 567	$ 2,323
(b) Carson City facility shutdown and Tijuana facility consolidation No. 1	411	1,595	2,450	2,468
(c) Columbia facility shutdown, Tijuana facility consolidation No. 2 and RD&E consolidation	1,225	-	3,546	-
(d) Tijuana start-up	-	380	-	865
(e) Asset dispositions and other	4,603	4,415	5,988	7,046
(f) Severance	-	-	-	1,505
	$ 6,239	$ 7,818	$ 12,551	$ 14,207

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

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

o Production inefficiencies and revalidation - $0.03 million;
o Moving and facility closures - $2.7 million; and
o Other - $0.4 million.

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

	Production inefficiencies and revalidation	Training	Moving and facility closures	Other	Total
Restructuring charges	$ 230	$ 23	$ 2,180	$ 373	$ 2,806
Cash payments	(230)	(23)	(1,144)	(373)	(1,770)
Accelerated depreciation/ asset write-offs	-	-	(838)	-	(838)
Balance, December 30, 2005	$ -	$ -	$ 198	$ -	$ 198
Restructuring charges	43	-	524	-	567
Cash payments	(43)	-	(722)	-	(765)
Accelerated depreciation/ asset write-offs	-	-	-	-	-
Balance, September 29, 2006	$ -	$ -	$ -	$ -	$ -

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

The Company has delayed the anticipated final closing of the Carson City Facility until the end of the first quarter of 2007 in order to accommodate a customer's pending regulatory approval. If this regulatory approval is delayed further, additional costs could be incurred. The total revised estimate for this plan is anticipated to be between $7.2 million and $7.4 million of which $6.9 million has been incurred through September 29, 2006. The major categories of costs include the following:

o Costs related to the shutdown of the Carson City Facility:

a. Severance and retention - $3.4 million;
b. Accelerated depreciation - $0.6 million; and
c. Other - $0.5 million.

o Costs related to Tijuana Facility consolidation No. 1:
a. Production inefficiencies and revalidation - $0.4 to $0.5 million;
b. Relocation and moving - $0.3 million;
c. Personnel (including travel, training and duplicate wages) - $1.5 to $1.6 million; and
d. Other - $0.5 million.

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

Accrued liabilities at September 29, 2006 related to the Carson City Facility shutdown are comprised of the following (in thousands):

	Severance and retention	Accelerated Depreciation	Other	Total
Restructuring charges	$ 2,096	$ 595	$ 221	$ 2,912
Cash payments	-	-	(221)	(221)
Write-offs	-	(595)	-	(595)
Balance, December 30, 2005	$ 2,096	$ -	$ -	$ 2,096
Restructuring charges	1,183	5	43	1,231
Cash payments	(2,110)	-	(43)	(2,153)
Write-offs	-	(5)	-	(5)
Balance, September 29, 2006	$ 1,169	$ -	$ -	$ 1,169

Accrued liabilities at September 29, 2006 related to the Tijuana Facility consolidation No. 1 are comprised of the following (in thousands):

	Production inefficiencies and revalidation	Relocation and moving	Personnel	Other	Total
Restructuring charges	$ 5	$ 123	$ 1,050	$ 350	$ 1,528
Cash payments	(5)	(123)	(1,050)	(350)	(1,528)
Write-offs	-	-	-	-	-
Balance, December 30, 2005	$ -	$ -	$ -	$ -	$ -
Restructuring charges	288	1	644	286	1,219
Cash payments	(288)	(1)	(644)	(286)	(1,219)
Write-offs	-	-	-	-	-
Balance, September 29, 2006	$ -	$ -	$ -	$ -	$ -

(c) Columbia Facility shutdown, Tijuana Facility consolidation No. 2 and RD&E consolidation. On November 16, 2005, the Company announced its intent to close both the Columbia, MD facility ("Columbia Facility") and the Fremont, CA Advanced Research Laboratory ("ARL"). The manufacturing operations at the Columbia Facility will be moved into the Tijuana Facility ("Tijuana Facility consolidation No. 2"). The research, development and engineering ("RD&E") and product development functions at the Columbia Facility and at ARL will relocate to the Technology Center in Clarence, NY.

The total estimated cost for this facility consolidation plan is anticipated to be between $7.9 million and $8.3 million of which $4.7 million has been incurred through September 29, 2006. The ARL move and closure portion of this consolidation project is complete. The Company expects to incur and pay the remaining cost for the other portions of the consolidation project over the next three fiscal quarters through June 2007. The major categories of costs include the following:

o Costs related to the shutdown of the Columbia Facility and ARL and the move and consolidation of the RD&E functions to Clarence, NY:
a. Severance and retention - $2.7 to $2.8 million;
b. Personnel (including travel, training and duplicate wages)
- $1.5 million
c. Accelerated depreciation/asset write-offs - $0.7 million; and
d. Other - $0.3 to $0.4 million.

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

All categories of costs are considered to be cash expenditures, except for accelerated depreciation and asset write-offs. Once the moves are completed, the Company anticipates annual cost savings in the range of $5.0 to $6.0 million. The expenses for the Columbia Facility and ARL shutdowns, the Tijuana Facility consolidation No. 2 and the RD&E consolidation are included in the IMC business segment.

Accrued liabilities at September 29, 2006 related to the Columbia Facility and ARL shutdowns and the RD&E consolidation are comprised of the following (in thousands):

	Severance and retention	Personnel	Accelerated depreciation / asset write-offs	Other	Total
Restructuring charges	$ 379	$ -	$ 435	$ 310	$ 1,124
Cash payments	-	-	-	-	-
Write-offs	-	-	(435)	-	(435)
Balance, December 30, 2005	$ 379	$ -	$ -	$ 310	$ 689
Restructuring charges	1,391	518	56	101	2,066
Cash payments	(370)	(518)	-	(411)	(1,299)
Write-offs	-	-	(56)	-	(56)
Balance, September 29, 2006	$ 1,400	$ -	$ -	$ -	$ 1,400

Accrued liabilities at September 29, 2006 related to Tijuana Facility consolidation No. 2 are comprised of the following (in thousands):

	Production inefficiencies and revalidation	Relocation and moving	Personnel	Other	Total
Restructuring charges	$ -	$ -	$ 10	$ -	$ 10
Cash payments	-	-	(10)	-	(10)
Balance, December 30, 2005	$ -	$ -	$ -	$ -	$ -
Restructuring charges	-	109	1,127	244	1,480
Cash payments	-	(109)	(1,127)	(244)	(1,480)
Balance, September 29, 2006	$ -	$ -	$ -	$ -	$ -

(d) Tijuana start-up. Other Tijuana start-up expenses (not associated with the Carson City Facility or Columbia Facility consolidation) during the three and nine months ended September 30, 2005 amounted to $0.4 million and $0.9 million, respectively. These expenses are primarily related to the initial start-up of the value added assembly business.

(e) Asset dispositions and other. During the third quarter of 2006, the Company recorded a loss of $4.4 million related to the write-off of a battery test system that was under development. Upon completion of the Company's engineering and technical evaluation, it was determined that the system could not meet the required specifications in a cost effective manner. This charge was included in the IMC business segment. During the 2005 third quarter, a $2.8 million charge was recorded for the write-down of automated cathode assembly equipment for the IMC segment.

In addition to the quarter variances discussed above, the nine month period in 2006 includes various asset dispositions and $0.8 million for professional fees related to a potential acquisition that was no longer considered probable. The remaining expense for the nine month period in 2005 relates to various asset dispositions and the cost to exit a development agreement of $1.2 million.

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

13. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In October 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). This Statement requires companies to recognize the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability in the statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. For publicly traded companies, SFAS No. 158 is effective as of the end of the fiscal year ending after December 15, 2006. Management does not expect this Statement to have a material impact on its financial statements as the Company currently does not maintain any benefit plans that fall within the scope of SFAS No. 158.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value while applying generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions based on market data obtained from independent sources and (2) the reporting entity's own assumptions developed based on unobservable inputs. The Company is still evaluating the impact of SFAS No. 157 on its financial statements, which is effective beginning in fiscal year 2008.

In September 2006, the SEC issued SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB No. 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of determining whether the current year's financial statements are materially misstated. SAB No. 108 is effective for fiscal years ending after November 15, 2006. The Company does not expect the adoption of SAB No. 108 to have a material impact on its financial statements.

In June 2006, the FASB issued Interpretation ("FIN") No. 48, Accounting for Uncertainty in Income Taxes. FIN No. 48 addresses the noncomparability in reporting tax assets and liabilities resulting from a lack of specific guidance in SFAS No. 109, Accounting for Income Taxes, on the uncertainty in income taxes recognized in an enterprise's financial statements. Specifically, FIN No. 48 prescribes (a) a consistent recognition threshold and (b) a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides related guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company is still evaluating the impact of FIN No. 48 on its financial statements which is effective beginning in fiscal year 2007.

14. SUBSEQUENT EVENT

Subsequent to the end of the third-quarter, on November 3, 2006, the Company's Chief Executive Officer approved a plan for consolidating the Company's corporate and business unit organization structure. As a result, approximately 40 corporate and business unit positions will be eliminated. The cash severance costs associated with the consolidation plan are estimated to be $2.1 to $2.3 million. The majority will be expensed in the 4th quarter of 2006 and will be paid out over the next three quarters. The annual gross savings is estimated to be $8.0 to $10.0 million upon plan completion and will generate annual net savings of $2.0 to $4.0 million. Approximately, $6.0 million will be reinvested in critical areas including Research, Development & Product Engineering.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our Business

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

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

Our Customers

Our products are designed to provide reliable, long lasting solutions that meet the evolving requirements and needs of our customers and the end users of their products. Our medical customers include leading IMD manufacturers such as Boston Scientific, St. Jude Medical, Medtronic, Biotronik, Cyberonics and the Sorin Group. A substantial part of our business is conducted with a limited number of customers. For the third quarter and first nine months of 2006, Boston Scientific, St. Jude Medical, and Medtronic collectively accounted for approximately 66% of our total sales. The nature and extent of our selling relationships with each CRM customer are different in terms of breadth of component products purchased, purchased product volumes, length of contractual commitment, ordering patterns, inventory management and selling prices. Our ECP customers are primarily companies involved in oil and gas exploration, military, oceanography, seismic and aerospace industries.

We have entered into long-term supply agreements with some of our customers. For each of our products, we recognize revenue when the products are shipped and title passes.

Business Highlights

o We achieved our sixth consecutive quarter of double-digit sales growth which totaled $69.3 million, up 11% from $62.4 million in the third quarter of 2005.
o Implantable Medical Components sales were $57.0 million, up 5% from $54.1 million in the third quarter of 2005. |X| The increase was primarily due to sales of new assembly products and continued growth in coated electrodes and molded components. |X| 2005 sales included approximately $3 to $5 million of additional revenue related to customer field actions, primarily impacting ICD batteries and capacitors as well as filtered feedthroughs and medical enclosures.

o Electrochem Commercial Power sales were $12.3 million, up 49%, led by continued strength in the oil and gas and seismic markets. Additionally, approximately $2 million of the increase was due to customer inventory stocking and seasonality.

o Diluted earnings per share for the third quarter of 2006 increased to $0.15 ($0.03 for 2005). The 2006 quarter included incremental stock-based compensation expense of $0.03 per share related to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 123(R) and benefited from lower facility move related costs and a lower effective tax rate.

o Operating margin increased 3.6 percentage points. This was primarily due to lower costs associated with our consolidation initiatives and higher sales volume partially offset by our planned increase in spending on research and development programs and the incremental cost of expensing stock options under SFAS No. 123(R).

o Facilities update:

o The final closure of the Carson City facility was delayed to accommodate pending customer regulatory approval;
o The move of the Columbia facility is on-going and is scheduled for completion in mid-2007, as originally planned. o The Tijuana facility has been recommended for ISO 13485:2003 certification. This is the internationally recognized standard for medical device development and manufacturing, which acknowledges that the facility meets medical device quality standards.

Our CEO's View

Our third quarter results represent the sixth consecutive quarter we have been able to achieve double-digit sales growth. These results came during an uncertain period in the ICD market and are indicative of the underlying strength of our position and the multiple levers we have available to drive our growth. These include market share penetration, new product introductions, international expansion, a robust commercial business and an emerging neurostimulation market opportunity.

Our sales for the third quarter increased by 11% from the prior year, with implantable medical components up 5%. This growth is positive given that last year's results included the added ICD related revenue resulting from the marketplace field actions, which we estimate at approximately $3 to $5 million. This growth continues to be driven by new products, market share gains and customer market share shifts, including positive results from our international customers.

We continue to experience growth (49%) in our commercial business led by our core oil and gas markets and favorable seasonality in the seismic market. In addition to the strong industry economic factors, our commercial sales growth is being driven by market share gains, increased sales from new products and increased sales and marketing efforts.

Currently, we are assessing both the strengths and areas for improvement within our organization and actions to address these issues in the near term. While advancing our corporate development initiatives remains a priority, we also plan to address ways in which we can optimize our already strong capital structure. We remain confident that these initiatives will allow us to achieve our overall strategic goals and further our competitive position in the marketplace.

Product Development

Our strategy is to maintain technology leadership by providing a fresh pipeline of next generation core products. Currently, the company is developing a series of new products for customer applications in the CRM, neurostimulation and commercial markets.

Some of the key development initiatives are as follows:

1. Continue the evolution of our Q series high rate ICD batteries.
2. Complete the development of a high voltage and high energy density capacitor system.
3. Develop Q series medium rate battery for neurostimulation and pacemaker applications.
4. Augment our existing rechargeable battery with a new rechargeable battery offering for use in neurostimulation applications.
5. Develop rechargeable battery packs for use in commercial applications.
6. Introduce new inductor slab filtered feedthrough technology and molded headers.
7. Continue development of the batteries and capacitors used in intravascular ICD devices.

IMC. Our near term focus for growth in the medical battery market, a portion of our IMC business, is the introduction of our Q-Series batteries. Initially they will be available in two configurations - QHR (High Rate) and QMR (Medium Rate). These batteries hold the promise of unparalleled performance in a wide range of implantable device and neurostimulation applications and allow our customers to incorporate advanced power-hungry features into these devices. While companies typically announce new products that have modest improvements in form and/or function regularly, we believe the Q-Series firmly establishes a new industry standard. It delivers advanced performance criteria to an industry that historically embraces new products. We believe the Q-Series will represent a major breakthrough by combining a smaller size with greater energy density (more power). We are pleased to report that the first ICD device implant with our new QHR technology occurred in the third quarter of 2006.

ECP. ECP continues to develop new and innovative power solutions for the world's most demanding commercial applications. ECP has developed a new high energy lithium cell for a customer in the telematics market. Due to their exceptional high energy, two of these new cells are capable of providing power for the entire 10-year life of the telematics device. ECP also has developed a battery pack capable of withstanding the customer's harsh operating conditions such as high vibration, high shock, salt spray, high temperature, low temperature, and high humidity.

Finally, ECP has developed a modular battery pack for a customer's fleet of underwater sonabuoys which measure water characteristics. The long life of ECP cells, coupled with their ability to withstand harsh conditions, make them ideally suited for buoys. The customer's expense of commissioning a ship to replace the batteries in each buoy is reduced when using ECP batteries due to their long life.

Cost Savings and Consolidation Efforts

During 2005, we initiated several significant cost savings and consolidation efforts, the implementation of which continued during the first nine months of 2006.

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

Expenses of $2.8 million were incurred in 2005 and $0.6 million were incurred during the first two quarters of 2006. In total, $1.8 million was paid in cash and $0.8 million was for assets written-off in 2005. Approximately $0.8 million was paid in cash during 2006.

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

The Company has delayed the anticipated final closing of the Carson City Facility until the end of the first quarter of 2007 in order to accommodate a customer's pending regulatory approval. If this regulatory approval is delayed further, additional costs could be incurred. The total revised estimate for this consolidation plan is anticipated to be between $7.2 million and $7.4 million, comprised of $4.5 million for the Carson City Facility shutdown and $2.7 million to $2.9 million for the Tijuana Facility consolidation No. 1. To date, $6.9 million of expenses has been recorded. All categories of costs are considered to be cash expenditures, except for accelerated depreciation.

Carson City Facility shutdown expenses of $4.1 million have been incurred to date, of which $2.9 million were recorded in 2005, and $1.2 million were incurred in the first nine months of 2006. In 2005, $0.2 million were paid in cash and $0.6 million were recorded as accelerated depreciation. To date, $2.1 million of the $3.3 million of severance and retention recorded to date was paid. Tijuana Facility consolidation No. 1 expenses of $1.5 million were incurred and paid in 2005, and $1.2 million were incurred and paid in 2006.

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

Columbia Facility & ARL shutdown, Tijuana Facility consolidation No. 2, and RD&E Consolidation. On November 16, 2005, we announced our intent to close both our Columbia, MD facility ("Columbia Facility") and our Fremont, CA Advanced Research Laboratory ("ARL"). The manufacturing operations at our Columbia Facility will be moved into our Tijuana Facility ("Tijuana Facility consolidation No. 2"). The research, development and engineering ("RD&E") and product development functions at our Columbia Facility have begun to relocate to the Technology Center in Clarence, NY. The ARL relocation to the Technology Center in Clarence, NY is complete.

The total estimated cost for this facility consolidation plan is anticipated to be between $7.9 million and $8.3 million. To date, we have expensed $4.7 million related to these projects and expect to incur the remaining costs over the next three fiscal quarters. All categories of costs are considered to be future cash expenditures, except for accelerated depreciation and asset write-offs.

Approximately $1.1 million of the Columbia Facility and ARL shutdown costs were incurred in 2005 ($0.4 million for assets written-off), and $2.1 million were incurred in the first three quarters of 2006. Approximately $1.3 million was paid in cash during the first three quarters of 2006. Tijuana Facility consolidation plan No. 2 expenses of $1.5 million were incurred and paid in cash in 2006.

Once the moves are completed, the Company anticipates annual cost savings in the range of $5.0 to $6.0 million. The expenses for the Columbia Facility and ARL shutdowns, the Tijuana Facility consolidation No. 2 and the RD&E consolidation are included in the IMC business segment.

Severance charges. The Company implemented a 4% workforce reduction during the first quarter of 2005, which resulted in a severance charge of $1.5 million. All amounts were paid in 2005.

Our Financial Results

We utilize a fifty-two, fifty-three week fiscal year ending on the Friday nearest December 31st. For 52-week years, each quarter contains 13 weeks. The third quarter of 2006 and 2005 ended on September 29, and September 30, respectively.

The commentary that follows should be read in conjunction with our condensed consolidated financial statements and related notes and with the Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Form 10-K for the fiscal year ended December 30, 2005.

Results of Operation

In thousands, except per share data	Three months ended Sept. 29, 2006	Sept. 30, 2005	$ Change	% Change	Nine months ended Sept. 29, 2006	Sept. 30, 2005	$ Change	% Change
IMC								
ICD batteries	$ 11,456	$ 11,345	111	1%	$ 35,129	$ 34,783	346	1%
Pacemaker and other batteries	4,439	5,424	(985)	-18%	16,156	16,917	(761)	-4%
ICD capacitors	4,499	5,349	(850)	-16%	13,406	15,600	(2,194)	-14%
Feedthroughs	17,355	16,386	969	6%	47,944	45,927	2,017	4%
Enclosures	5,698	6,203	(505)	-8%	19,143	18,769	374	2%
Other medical	13,560	9,378	4,182	45%	42,565	24,740	17,825	72%
Total IMC	57,007	54,085	2,922	5%	174,343	156,736	17,607	11%
ECP	12,287	8,273	4,014	49%	33,656	25,504	8,152	32%
Total sales	69,294	62,358	6,936	11%	207,999	182,240	25,759	14%
Cost of sales - excluding amortization of intangible assets	42,709	38,178	4,531	12%	125,087	112,154	12,933	12%
Cost of sales - amortization of intangible assets	948	967	(19)	-2%	2,864	2,883	(19)	-1%
Total Cost of Sales (1)	43,657	39,145	4,512	12%	127,951	115,037	12,914	11%
Cost of sales as a % of sales	63.0%	62.8%		0.2%	61.5%	63.1%		-1.6%
Selling, general, and administrative expenses (SG&A)	9,311	8,842	469	5%	28,191	24,089	4,102	17%
SG&A as a % of sales	13.4%	14.2%		-0.8%	13.6%	13.2%		0.4%
Research, development and engineering costs, net (RD&E)	6,022	5,124	898	18%	18,062	13,182	4,880	37%
RD&E as a % of sales	8.7%	8.2%		0.5%	8.7%	7.2%		1.5%
Other operating expense, net	6,239	7,818	(1,579)	-20%	12,551	14,207	(1,656)	-12%
Operating income	4,065	1,429	2,636	184%	21,244	15,725	5,519	35%
Operating margin	5.9%	2.3%		3.6%	10.2%	8.6%		1.6%
Interest expense	1,135	1,154	(19)	-2%	3,433	3,476	(43)	-1%
Interest income	(1,521)	(796)	(725)	91%	(4,066)	(2,024)	(2,042)	101%
Other (income) expense, net	171	(9)	180	-2000%	51	(69)	120	-174%
Provision for income taxes	1,041	324	717	221%	7,094	4,303	2,791	65%
Effective tax rate	24.3%	30.0%		-5.7%	32.5%	30.0%		2.5%
Net income	$ 3,239	$ 756	$ 2,483	328%	$ 14,732	$ 10,039	$ 4,693	47%
Net margin	4.7%	1.2%		3.5%	7.1%	5.5%		1.6%
Diluted earnings per share	$ 0.15	$ 0.03	$ 0.12	400%	$ 0.65	$ 0.46	$ 0.19	41%

(1) Cost of sales includes amortization of intangible assets and has been reclassified for the previous year periods to conform with the current year presentation.

Sales

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

Our customers may initiate field actions with respect to market-released products. These actions may include product recalls or communications with a significant number of physicians about a product or labeling issue. The scope of such actions can range from very minor issues affecting a small number of units to more significant actions. There are a number of factors, both short-term and long-term related to these field actions that may impact our results. In the short-term, if product has to be replaced, or customer inventory levels have to be restored, this will result in increased component demand. Also, changing customer order patterns due to market share shifts or accelerated device replacements may also have a positive impact on our sales results in the near-term. These same factors may have longer-term implications as well. Customer inventory levels may ultimately have to be rebalanced to match demand.

We believe that the market continues to exhibit strong underlying growth fundamentals and that we are well positioned to participate in this market growth.

Driving the increase in IMC sales of 5% and 11% for the three and nine month periods ending September 29, 2006 were sales related to assembly products, coated components and machined parts which are included in the other medical category. The assembly product line was initiated in 2005. We expect this business to continue to grow for the remainder of 2006 and in 2007. Our machined parts and coated electrode products are up 35% in the quarter and 32% year to date as we have benefited from increased adoption of our technology by our domestic customers.

This growth was partially offset by lower than expected sales from ICD batteries and capacitors as well as medical enclosures primarily due to the marketplace field actions in 2005. We estimate that these marketplace field actions added approximately $3 to $5 million and $6 to $8 million for the three and nine month periods of 2005, respectively.

ECP. Similar to IMC customers, we have pricing arrangements with our customers that many times do not specify minimum quantities. Our visibility to customer ordering patterns is over a relatively short period of time.

The ECP sales increased 49% and 32%, respectively, for the three and nine month periods ending September 29, 2006. During the third quarter of 2006, we benefited from approximately $2 million of customer inventory stocking in the oil and gas segment, due to marketplace consolidation in prior quarters that reduced inventory levels, and favorable seasonality in the seismic market. Looking longer term, the fundamentals in the oil and gas, ocean, seismic and military markets remain healthy. In addition, we have a highly motivated sales and management team in place that have effectively positioned our products for continued growth. We continue to add value for our customers by moving from providing discrete cells to more complete battery packages.

Cost of Sales

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

	September 29, 2006	
	Three months ended	Nine months ended
Production efficiencies primarily associated with higher volumes (a)	-4.3%	-5.4%
Excess capacity at wet tantalum capacitor facility (b)	-0.8%	-0.9%
Excess capacity at Tijuana Facility (c)	0.3%	0.6%
Mix change (d)	3.8%	5.2%
Other	1.2%	-1.1%
Total percentage point change to cost of sales as a percentage of sales	0.2%	-1.6%

(a) This decrease in cost of sales is primarily due to the fact that as production volumes increase, fixed costs such as plant overhead and depreciation do not increase at the same rate. The production volume increase was necessary to accommodate the increased sales and to replenish safety stocks.
(b) During 2005, the capacitor facility was not being utilized to its full capacity. The cost associated with the excess capacity was eliminated in 2006 as capacitor manufacturing was consolidated into the Alden Facility. In accordance with the Company's inventory accounting policy, excess capacity costs were expensed in 2005.
(c) The Tijuana Facility was new in 2005 and its infrastructure and floor space were coming on line during the first quarter of 2005 and therefore the full cost of the capacity was not in place. In accordance with the Company's inventory accounting policy, excess capacity costs were expensed.
(d) The revenue increase from 2005 was primarily in other medical, which generally have lower margins.

We expect cost of sales as a percentage of sales to decrease over the next several years as the result of the consolidation efforts and the elimination of excess capacity. Excess capacity for the Tijuana Facility is not expected to be eliminated until mid-2007 when the last announced consolidation effort is anticipated to be completed (see the "cost savings and consolidation efforts" section for additional information).

Cost of sales - Amortization of intangible assets

Amortization expense for the three and nine month periods ended September 29, 2006 was consistent with the same periods of 2005.

SG&A expenses

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

	September 29, 2006	
	Three months ended	Nine months ended
SFAS No. 123(R) stock-based compensation expense	$ 1,100	$ 2,900
Increased workforce	100	1,300
Incentive compensation	(1,100)	(900)
Other	400	800
Net increase in SG&A	$ 500	$ 4,100

As a result of the adoption of SFAS No. 123(R), the Company began expensing stock options in fiscal year 2006, which had a material impact on SG&A costs. The increase in stock-based compensation expense is expected to continue into the future. The increased workforce expense was a result of the Company's efforts to increase the marketing and sales of its products as well as general and administrative costs associated with the Tijuana Facility. Incentive compensation is accrued based upon the achievement of performance goals relative to planned results.

RD&E expenses

Net research, development and engineering costs are as follows (in thousands):

	Three months ended		Nine months ended	
	September 29, 2006	September 30, 2005	September 29, 2006	September 30, 2005
Research and development costs	$ 3,852	$ 4,534	$ 11,800	$ 12,187
Engineering costs	2,521	1,384	7,697	4,250
Less cost reimbursements	(351)	(794)	(1,435)	(3,255)
Engineering costs, net	2,170	590	6,262	995
Total research and development and engineering costs, net	$ 6,022	$ 5,124	$ 18,062	$ 13,182

The increase in RD&E expenses for the three and nine month periods ended September 29, 2006 is primarily due to the planned increase in engineering personnel costs (headcount), as we continue to invest substantial resources to develop new products. Reimbursement on product development projects decreased in the current quarter compared to last year primarily due to the achievement of significant milestones on one large project in 2005 that did not reoccur in 2006. In terms of the development costs billed, reimbursements were lower due to lower volume and timing of reimbursable development projects entered into during the last nine month period. Reimbursements for achieving certain development milestones are netted against gross spending.

Other operating expense

Other operating expense for 2006 and 2005 are comprised of the following costs (in thousands):

	Three months ended September 29, 2006	Three months ended September 30, 2005	Nine months ended September 29, 2006	Nine months ended September 30, 2005
(a) Alden facility consolidation	$ -	$ 1,428	$ 567	$ 2,323
(a) Carson City facility shutdown and Tijuana facility consolidation No. 1	411	1,595	2,450	2,468
(a) Columbia facility shutdown, Tijuana facility consolidation No. 2 and RD&E consolidation	1,225	-	3,546	-
(a) Tijuana start-up	-	380	-	865
(b) Asset dispositions and other	4,603	4,415	5,988	7,046
(c) Severance	-	-	-	1,505
	$ 6,239	$ 7,818	$ 12,551	$ 14,207

(a) Refer to the "Cost Savings and Consolidation Efforts" discussion for disclosure related to the timing and level of remaining expenditures for these items as of September 29, 2006.
(b) During the third quarter of 2006, the Company recorded a loss of $4.4 million related to the write-off of a battery test system that was under development. Upon completion of the Company's engineering and technical evaluation, it was determined that the system could not meet the required specifications in a cost effective manner. This charge was included in the IMC business segment. During the 2005 third quarter, a $2.8 million charge was recorded for the write-down of automated cathode assembly equipment for the IMC segment.

In addition to the quarter variances discussed above, the nine month period in 2006 includes various asset dispositions and $0.8 million for professional fees related to a potential acquisition that was no longer considered probable. The remaining expense for the nine month period in 2005 relates to various asset dispositions and the cost to exit a development agreement of $1.2 million.
(c) During the first quarter of 2005, the Company implemented a 4% workforce reduction as a continuation of cost containment efforts initiated mid-year 2004. As a result, severance charges of $1.5 million were recorded and paid in 2005. Expense of $0.9 million was recorded in the IMC segment, $0.2 million in the ECP segment, and $0.4 million was recorded in unallocated operating expenses under business segment information.

Other operating expense for 2006 is expected to be in the range of $14.3 million and $15.5 million, primarily related to plant consolidations and asset dispositions. Other operating expenses are expected to be substantially reduced after the second quarter of 2007 when the last announced consolidation effort is anticipated to be completed.

Interest expense and interest income

Interest expense for the three and nine months ended September 29, 2006 is consistent with prior year periods, and is primarily related to the outstanding convertible notes.

Interest income for the three and nine months ended September 29, 2006 increased in comparison to the same periods of 2005 due to increased cash, cash equivalents and short-term investment balances coupled with higher interest rates on the invested cash.

Provision for income taxes

During the third quarter of 2006, we adjusted our tax accounts to reflect the filing of our 2005 tax returns as well as the completion of various tax savings initiatives. Additionally, our effective tax rate is lower than the United States statutory rate due to the allowable Extraterritorial Income Exclusion ("ETI") and the Qualified Production Activities Deduction. As a result, our effective tax rate was reduced to 24.3% in the third quarter of 2006 and 32.5% for the first three quarters of 2006. In comparison to the prior year, the 2005 effective tax rate for the three month and nine month periods ending September 30, 2005 of 30.0% benefited from federal research and development tax credits and a higher level of allowable ETI benefits. For the remainder of the year, we expect our effective tax rate to be 32.5% and approximately 35% over the longer term.

Subsequent Events

Subsequent to the end of the third-quarter, on November 3, 2006, the Company's Chief Executive Officer approved a plan for consolidating the Company's corporate and business unit organization structure. The Company has completed two-thirds of its three-year plan to consolidate facilities. The Company's Management determined that it was time to align the Company's organization and cost structures to be consistent with the revised facilities' footprint and the way they intend on conducting business in the future. As a result, approximately 40 corporate and business unit positions will be eliminated. This reduction will enable the Company to better match its human resources with the management and technical skill sets required to optimize long-term operating performance. A significant portion of the annual savings will be reinvested into Research & Development activities and business investment opportunities.

The annual gross savings is estimated to be $8.0 to $10.0 million upon plan completion and will generate annual net savings of $2.0 to $4.0 million. Approximately, $6.0 million will be reinvested in critical areas including Research, Development & Product Engineering. The severance costs associated with the consolidation plan are estimated to be $2.1 to $2.3 million and the majority will be incurred in the 4th quarter of 2006. As a result, the Company is decreasing its full year 2006 diluted earnings per share guidance by $0.06 from the range of $0.71 - $0.77 per share to $0.65 - $0.71 per share. Final completion of the plan is expected during 2007.

Liquidity and Capital Resources

(Dollars in millions)	September 29, 2006	December 30, 2005
Cash and cash equivalents and short-term investments (a)	$ 128.2	$ 112.1
Working capital (b)	$ 190.1	$ 152.0
Current ratio	6.1:1.0	4.5:1.0

(a) Short-term investments consist of investments acquired with maturities that exceed three months and are less than one year at the time of acquisition, equity securities classified as available-for-sale, and auction rate securities.
(b) Working capital increased by approximately $38.1 million. Net earnings of $14.7 million, depreciation and amortization of $14.4 million, the Company stock contributed to the 401(k) Plan of $2.8 million and the $2.7 million increase in accumulated other comprehensive income during the period are the primary drivers behind this increase.

Revolving Line of Credit

The Company maintains a three-year $50.0 million Revolving Credit Facility (the "Revolver"), which contains a $10.0 million sub-limit for the issuance of commercial or standby letters of credit. The Revolver is secured by the Company's non-realty assets including cash, accounts and notes receivable, and inventories and has an expiration date of May 31, 2008. The Revolver requires the Company to comply with two quarterly financial covenants, as defined. The first relates to the ratio of consolidated net earnings or loss before interest, taxes, depreciation, and amortization ("EBITDA") to fixed charges. The second is a leverage ratio, which is calculated based on the ratio of consolidated funded debt less cash, cash equivalent investments and short-term investments to consolidated EBITDA. Interest rates under the Revolver vary with the Company's leverage. The Company is required to pay a commitment fee of between 0.125% and 0.250% per annum on the unused portion of the Revolver based on the Company's leverage. As of September 29, 2006, the Company had no balance outstanding on the Revolver.
Our principal sources of liquidity are our operating cash flow combined with our working capital of $190.1 million at September 29, 2006 and availability under the Revolver. Historically we have generated cash from operations sufficient to meet our capital expenditure and debt service needs, other than for acquisitions. At September 29, 2006, our current ratio was 6.1:1.0.

The Company regularly engages in discussions relating to potential acquisitions and may announce an acquisition transaction at any time.

Operating activities

Net cash flows provided by operating activities for the nine months ended September 29, 2006 decreased by $8.1 million over the comparable period in 2005. This was primarily the result of an increase in inventory safety stocks and decreased accrued expenses resulting from the payment of 2005 incentive compensation and lower accruals in 2006 for incentive compensation as well as cost saving initiatives and consolidation efforts. These cash outflows were offset by higher cash inflows resulting from operating income during the period.

Investing activities

The majority of the acquisition of property, plant and equipment for the first three quarters of 2006 was related to the movement of operations to and build out of the Tijuana Facility. Additionally, routine purchases are made in order to support our internal growth and to maintain our technology leadership.

Net cash invested in short-term instruments during the first nine months of 2006 of $3.3 million is comparable to the 2005 period and was primarily a result of the investment of excess cash flow from operations.

Financing activities

Payments on capital lease obligations and cash received from non-qualified stock option exercises are the primary financing activities for the first nine months of 2006 and 2005.

Capital Structure

At September 29, 2006, our capital structure consisted of $170.0 million of convertible subordinated notes and our 22.0 million shares of common stock outstanding. We have in excess of $128.2 million in cash, cash equivalents and short-term investments and are in a position to facilitate future acquisitions if necessary. We are also authorized to issue 100 million shares of common stock and 100 million shares of preferred stock. The market value of our outstanding common stock since our IPO has exceeded our book value; accordingly, we believe that if needed we can access public markets to sell additional common or preferred stock assuming conditions are appropriate.

Our capital structure allows us to support our internal growth and provides liquidity for corporate development initiatives. Our current expectation for 2006 is that capital spending will be in the range of $16.0 million to $20.0 million, of which $5.0 to $7.0 million is attributable to the Tijuana Facility build-out.

Off-Balance Sheet Arrangements

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

Contractual Obligations

In the normal course of business, the Company makes routine purchase commitments (primarily equipment and raw material purchases) in order to maintain the technological leadership of its manufacturing facilities and meet the needs of its customers. As of September 29, 2006, total contractual obligations related to such expenditures are $8.6 million and will be financed by existing cash, short-term investments, or cash generated from operations.

Inflation

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

Impact of Recently Issued Accounting Standards

In October 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and
132(R). This Statement requires companies to recognize the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability in the statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. For publicly traded companies, SFAS No. 158 is effective as of the end of the fiscal year ending after December 15, 2006. Management does not expect this Statement to have a material impact on its financial statements as the Company currently does not maintain any benefit plans that fall within the scope of SFAS No. 158.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value while applying generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions based on market data obtained from independent sources and (2) the reporting entity's own assumptions developed based on unobservable inputs. The Company is still evaluating the impact of SFAS No. 157 on its financial statements, which is effective beginning in fiscal year 2008.

In September 2006, the SEC issued SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB No. 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of determining whether the current year's financial statements are materially misstated. SAB No. 108 is effective for fiscal years ending after November 15, 2006. The Company does not expect the adoption of SAB No. 108 to have a material impact on its financial statements.

In June 2006, the FASB issued Interpretation ("FIN") No. 48, Accounting for Uncertainty in Income Taxes. FIN No. 48 addresses the noncomparability in reporting tax assets and liabilities resulting from a lack of specific guidance in SFAS No. 109, Accounting for Income Taxes, on the uncertainty in income taxes recognized in an enterprise's financial statements. Specifically, FIN No. 48 prescribes (a) a consistent recognition threshold and (b) a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides related guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company is still evaluating the impact of FIN No. 48 on its financial statements which is effective beginning in fiscal year 2007.

Application of Critical Accounting Estimates

Our unaudited condensed consolidated financial statements are based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make significant assumptions. We believe that some of the more critical estimates and related assumptions that affect our financial condition and results of operations are in the areas of inventories, goodwill and other indefinite lived intangible assets, long-lived assets, share-based compensation and income taxes.

During the three months ended September 29, 2006, we did not change or adopt new accounting policies that had a material effect on our consolidated financial condition and results of operations.

Effective in fiscal year 2006, we adopted SFAS No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123(R)"), and related Securities and Exchange Commission rules included in Staff Accounting Bulletin No. 107, on a modified prospective basis. Under this method, compensation cost recognized beginning in fiscal year 2006 includes costs related to 1) all share-based payments (stock options and restricted stock awards) granted prior to but not yet vested as of fiscal year 2006, based on the grant-date fair value estimated in accordance

with the original provisions of SFAS No. 123, Accounting for Stock-Based Compensation, and 2) all share-based payments (stock options and restricted stock and unit awards) granted subsequent to the beginning of fiscal year 2006 based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). Compensation cost for service-based stock options and restricted stock awards is recognized ratably over the applicable vesting period. Compensation cost for performance-based stock options and restricted stock units is reassessed each period and recognized based upon the probability that the performance targets will be achieved.

Compensation costs related to share-based payments for the three and nine months ended September 29, 2006 totaled $1.6 million and $4.2 million, respectively, and is included in the statement of earnings primarily in selling, general, and administrative expenses. As of September 29, 2006, $10.9 million of unrecognized compensation cost related to non-vested share-based payments is expected to be recognized over a weighted-average period of approximately five years.

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

There is a high degree of subjectivity involved in selecting the option pricing model assumptions used to estimate share-based compensation expense under SFAS No. 123(R). Option pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions, are fully transferable and do not cause dilution. Because our share-based payments have characteristics significantly different from those of freely traded options, and because changes in the subjective input assumptions can materially affect our estimates of fair values, existing valuation models may not provide reliable measures of the fair values of our share-based compensation. Consequently, there is a risk that our estimates of the fair values of our share-based compensation awards on the grant dates may bear little resemblance to the actual values realized upon the exercise, expiration or forfeiture of those share-based payments in the future. Stock options may expire worthless or otherwise result in zero intrinsic value as compared to the fair values originally estimated on the grant date and reported in our condensed consolidated financial statements. Alternatively, value may be realized from these instruments that is significantly in excess of the fair values originally estimated on the grant date and reported in our condensed consolidated financial statements.

There are significant differences among valuation models. This may result in a lack of comparability with other companies that use different models, methods and assumptions. There is also a possibility that we will adopt a different valuation model in the future. This may result in a lack of consistency in future periods and may materially affect the fair value estimate of share-based payments.

Compensation cost for performance-based stock options and restricted stock units is reassessed each period and recognized based upon the probability that the performance targets will be achieved. Changes could occur that would materially affect our probability assessment. Changes in performance of the Company or individuals who have been granted performance-based awards that affect the likelihood that performance based targets are achieved could materially impact the amount of stock-based compensation recognized.

Forward-Looking Statements

Some of the statements contained in this Quarterly Report on Form 10-Q 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:

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

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

Although it is not possible to create a comprehensive list of all factors that may cause actual results to differ from the results expressed or implied by our forward-looking statements or that may affect our future results, some of these factors include the following: dependence upon a limited number of customers, product obsolescence, inability to market current or future products, pricing pressure from customers, reliance on third party suppliers for raw materials, products and subcomponents, fluctuating operating results, inability to maintain high quality standards for our products, challenges to our intellectual property rights, product liability claims, inability to successfully consummate and integrate acquisitions, unsuccessful expansion into new markets, competition, inability to obtain licenses to key technology, regulatory changes or consolidation in the healthcare industry, and other risks and uncertainties that arise from time to time as described in the Company's Annual Report on Form 10-K and other periodic filings with the Securities and Exchange Commission.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Under our line of credit any borrowings bear interest at fluctuating market rates. At September 29, 2006, we did not have any borrowings outstanding under our line of credit and thus no interest rate sensitive financial instruments other than short-term investments. We do not believe that the impact of fluctuations in interest rates on our short-term investments will have a material effect on our condensed consolidated financial statements.

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

ITEM 4. CONTROLS AND PROCEDURES.

a. Evaluation of Disclosure Controls and Procedures.

During the third quarter of 2006, our management, including the principal executive officer and principal financial officer, evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) related to the recording, processing, summarization and reporting of information in our reports that we file with the SEC. These disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to us, including our subsidiaries, is made known to our management, including these officers, by other of our employees, and that this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the SEC's rules and forms.

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

b. Changes in Internal Control Over Financial Reporting.

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

As reported in the Company's 2005 first quarter Form 10-Q, on May 2, 2005, a complaint was filed against the Company by a developer of an implantable drug delivery device in the United States Federal District Court for the Central District of California. On May 20, 2005, the parties entered into a settlement agreement under which the Company undertook certain obligations including the performance of certain additional development tasks for a limited period of time. On June 2, 2005, the Court ordered the complaint dismissed without prejudice. During the second quarter of 2006, a letter was received from the developer claiming that the Company was in breach of the settlement agreement. The Company asserted a counter-position that the developer also breached the settlement agreement and initiated the mandatory arbitration process as allowed for under the settlement agreement. During the third quarter of 2006, this dispute between the developer and the Company was settled and each party executed a legally binding release. All costs and payments associated with this resolution had been previously accrued under the May 20, 2005 settlement agreement and no further charges are anticipated.

ITEM 1A. RISK FACTORS.

No material changes from risk factors as previously disclosed in the Company's Form 10-K for the year ended December 30, 2005.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None.

ITEM 5. OTHER INFORMATION.

Subsequent to the end of the third-quarter, on November 3, 2006, the Company's Chief Executive Officer approved a plan for consolidating the Company's corporate and business unit organization structure. The Company has completed two-thirds of its three-year plan to consolidate facilities. The Company's Management determined that it was time to align the Company's organization and cost structures to be consistent with the revised facilities' footprint and the way they intend on conducting business in the future. As a result, approximately 40 corporate and business unit positions will be eliminated. This reduction will enable the Company to better match its human resources with the management and technical skill sets required to optimize long-term operating performance. A significant portion of the annual savings will be reinvested into Research & Development activities and business investment opportunities.

The annual gross savings is estimated to be $8.0 to $10.0 million upon plan completion and will generate annual net savings of $2.0 to $4.0 million. Approximately, $6.0 million will be reinvested in critical areas including Research, Development & Product Engineering. The severance costs associated with the consolidation plan are estimated to be $2.1 to $2.3 million and the majority will be incurred in the 4th quarter of 2006. As a result, the Company is decreasing its full year 2006 diluted earnings per share guidance by $0.06 from the range of $0.71 - $0.77 per share to $0.65 - $0.71 per share. Final completion of the plan is expected during 2007.

ITEM 6. EXHIBITS.

See the Exhibit Index for a list of those exhibits filed herewith.

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: November 7, 2006

GREATBATCH, INC.

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

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

By /s/ Marco F. Benedetti
Marco F. Benedetti
Corporate Controller
(Principal Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to our quarterly report on Form 10-Q ended July 1, 2005).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to our quarterly report on Form 10-Q ended March 29, 2002).
10.1	Employment Agreement dated August 8, 2006 between Greatbatch, Inc. and Thomas J. Hook.
10.2	Employment Agreement dated November 3, 2006 between Greatbatch, Inc. and Larry T. DeAngelo.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 10.1

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made by and between GREATBATCH INC., a Delaware corporation, with an office at 9645 Wehrle Drive, Clarence, New York 14031 (the "Corporation") and THOMAS J. HOOK, residing at 9540 Lakestone Ct., Clarence, NY 14031 (the "Executive").

Introductory Statement. The Executive has previously served as Executive Vice President and Chief Operating Officer of the Corporation under an offer of employment letter dated August 9, 2004, and as President of the Corporation since June 2005. The Corporation now desires to secure the future services of the Executive as President and Chief Executive Officer of the Corporation and the Executive desires to accept such employment upon the terms and conditions contained in this Agreement. Therefore, in consideration of the mutual covenants and agreements contained in this Agreement, the parties agree as follows:

1. Term of Employment.

1.1 Initial Term. Subject to the terms and conditions set forth in this Agreement, the Corporation hereby agrees to continue to employ the Executive for the period beginning on the Effective Date of this Agreement and ending on December 31, 2009 (the "Initial Term"), or until earlier terminated as provided herein.

1.2 Effective Date. The Effective Date of this Agreement is August 8, 2006.

1.3 Extensions. The Agreement will be automatically extended beyond the Initial Term of the Agreement for successive renewal terms of one year each (subject to written modifications acceptable to both parties), unless either the Corporation or the Executive gives timely notice to the other party that the term of the Agreement will not be so extended beyond the Initial Term or any such renewal term. Notice under this Section, whether given by the Corporation or the Executive, will be given in writing and must be delivered not later than twelve months prior to the date (including extensions) the Agreement would otherwise terminate.

2. Employment; Duties.

Subject to the formal election by the Board of Directors of the Corporation (the "Board") in the exercise of its judgment, the Corporation does hereby employ the Executive, and the Executive does hereby accept employment by the Corporation, as President and Chief Executive Officer ("CEO") of the Corporation. As an executive officer of the Corporation, the Executive will perform his duties and discharge his responsibilities in accordance with the by-laws of the Corporation and as the Board from time to time reasonably directs, recognizing the nature and scope of the Executive's employment. Subject to yearly election by the Board, it is contemplated that the Executive will continue to be elected to the position of President and CEO of the Corporation during the term of this Agreement.

The Executive agrees to perform his duties and discharge his responsibilities in a faithful manner and to the best of his ability. The Executive agrees to devote his full business time and attention to the supervision and conduct of the business and affairs of the Corporation and to faithfully and to the best of his ability promote the interests of the Corporation. The Executive further agrees that he will engage in no outside business concerns or activities, and will not accept other gainful employment, without the Corporation's written consent. The Corporation hereby acknowledges and consents to the Executive continuing to serve on any Boards of Directors on which he currently serves, and on the Boards of other nonprofit or charitable organizations, provided that the Executive agrees not to serve concurrently on the Board of Directors of more than one publicly held company during the term of the Agreement.

3. Compensation and Other Benefits.

3.1 Base Salary. So long as the Executive is employed by the Corporation pursuant to this Agreement, the Corporation agrees that the Executive will receive a base salary earned and payable in bi-weekly installments. As of the Effective Date, the base salary is $425,000 per year.

The Compensation and Organization Committee of the Board (the "Compensation Committee"), with the concurrence of the Board, will in good faith review the performance and salary of the Executive on an annual basis, and will consider appropriate increases in his salary based on individual performance, the value of the Executive to the Corporation, pay practices for comparable performance in the industry, and the successful achievement of agreed upon operating objectives. The review will be made as soon as practicable after the audited financial statements of the Corporation for the past year are available, and any salary increase authorized by the Compensation Committee will be effective at the time specified by the Committee.

3.2 Incentive Awards.

(a) During the term of the Executive's employment under this Agreement, the Executive will be eligible to receive cash-based and stock-based incentive awards under the terms of the Corporation's incentive award programs and equity plans for executives as in effect during the term of the Agreement. Incentive and equity-based awards for the Executive in effect as of the Effective Date are listed in Appendix A to this Agreement.

(b) The Executive will be awarded, as an incentive in respect of his new duties as CEO, the stock-based compensation noted on Appendix B (the "Promotion Awards").

3.3 Other Benefits. During the term of this Agreement, to the extent permitted by law, the Executive will be entitled to participate in any health and medical benefit plans, any pension, profit sharing and retirement plans and any insurance policies or programs from time to time generally offered to the executive officers of the Corporation. These plans, policies and programs are subject to change at the sole discretion of the Corporation. The Executive will also receive all fringe benefits provided for the executive officers of the Corporation that may be authorized from time to time by the Board in its sole discretion. Benefits provided under this Section include, but are not limited to, the following:

(a) Life Insurance. Throughout the term of this Agreement, the Corporation will provide and maintain, at the Corporation's sole expense, term life insurance with a total face value of not less than $5,000,000 on the life of the Executive. The death beneficiary with respect to the life insurance will be the person designated by the Executive in his sole discretion. This amount includes (and is not in addition to) any insurance that may be provided generally to executive officers. The Executive will be entitled, at his discretion, to exercise any conversion rights available under the policy.

(b) Financial Planner. Every year the Corporation will provide the Executive $3,000 per year to pay for services rendered by a financial planner selected by the Executive in his sole discretion.

(c) Automobile. The Corporation will provide the Executive with the use of an automobile or an auto use allowance that is commensurate with his position and in accordance with the Corporation's policy, if any.

(d) Vacation. The Executive will continue to receive four weeks vacation each calendar year, at such times as agreed upon by the Corporation and the Executive and subject to the Corporation's generally applicable procedures on award, carryover and accrual. This vacation time includes (and is not in addition to) any vacation time that may be provided generally to executive officers.

(e) Disability. The Executive will continue to be eligible to participate in the executive class long term disability program currently available to executives of the Corporation.

(f) Executive Physical Exam. The Corporation will continue to provide to the Executive, at the Corporation's sole expense, an annual comprehensive physical exam, as provided under the Corporation's Key Management Physical Examination Program.

(g) Tuition Reimbursement. The Executive will be eligible for benefits under the Corporation's Dependent College Tuition Reimbursement Policy as it was in effect on the date on which the Corporation initiated its succession-planning activity for the CEO position (pre-January 1, 2003).

(h) Change of Control Policy. The Executive will continue to be covered under the Greatbatch Inc. Change of Control Agreement between the Executive and the Corporation, dated August 10, 2004 (the "Change of Control Agreement"), as it may be amended by agreement of the parties.

The Executive acknowledges and agrees that certain benefit plans and perquisites of the Corporation may be changed or terminated during the term of this Agreement. Without limiting the foregoing, this may include termination of the perquisites identified in subsections 3.3(c) and 3.3 (f) hereof; but the perquisite identified in subsection 3.3(g) may not be terminated nor, insofar as it applies to the Executive, changed.

3.4 Withholding. The Corporation will deduct or withhold from salary payments, and from all other payments made to the Executive pursuant to this Agreement, all amounts that may be required to be deducted or withheld under any applicable law now in effect or that may become effective during the term of the Agreement (including but not limited to Social Security contributions and income tax withholdings).

4. Reimbursement for Expenses.

The Corporation will reimburse the Executive for expenses that the Executive may from time to time reasonably incur on behalf of and at the request of the Corporation in the performance of his responsibilities and duties under this Agreement, provided that the Executive is expected to exercise reasonable and prudent expense control practices that are subject to audit by a designated representative of the Compensation Committee.

5. Death or Permanent Disability of Executive.

5.1 Permanent Disability. If the Executive becomes permanently disabled during the term of this Agreement, the Corporation will pay to the Executive the following compensation and benefits at the time of his termination of employment due to disability:

(a) Salary Continuation. The Corporation will continue to pay the base salary, at the same rate and in the same manner as in effect at the time the Executive becomes permanently disabled, for the longer of (i) the balance of the Initial Term of this Agreement or (ii) one year from the date that the determination as to permanent disability is made pursuant to Section 5.2 (such applicable period, the "5.1 Continuation Period." If the Executive dies after becoming permanently disabled and while payments are being made under this subsection, the remaining payments will be made to the Executive's spouse, if surviving, or legal representatives.

(b) Fringe Benefits. All benefits provided under Section 3.3 of this Agreement (including health insurance for the Executive and his spouse and dependents) will continue to be provided to the Executive throughout the 5.1 Continuation Period.

(c) Incentive Awards/Stock Options/Corporation Stock. Any and all stock options, restricted stock and other incentive and equity-based awards granted to the Executive with respect to which he is not yet vested on the date he becomes permanently disabled, except for awards granted under the SALT Plan (as defined in Appendix A), will become automatically 100% vested on the date he becomes permanently disabled, regardless of the satisfaction of any performance criteria.

(d) Section 409A . Notwithstanding the foregoing provisions of this section, if it is determined that any amounts or benefits provided under this section would violate Section 409A of the Internal Revenue Code ("Code") if paid prior to the date that is six months after the Executive's termination of employment due to disability, then no amounts (including reimbursements for affected benefits) will be paid prior to the date that is six months after the Executive's "separation from service" within the meaning of Section 409A of the Code (or, if earlier, the date of death of the Executive). Payments to which the Executive would otherwise be entitled during the first six months following the date of separation from service will be accumulated and paid on the day that is six months after the date of separation from service.

5.2 "Permanently Disabled." For purposes of this Agreement, the Executive will be "permanently disabled" if he is determined to be permanently disabled for purposes of any disability insurance policy maintained by the Corporation that covers the Executive. If the Corporation maintains no such policy, the Executive will be "permanently disabled" if he has a disability because of which the Executive is physically or mentally unable to substantially perform his regular duties as President or CEO for a sufficiently long period of time such that the business of the Corporation could be materially adversely affected. Any question as to the existence, extent or potentiality of disability of the Executive upon which the Executive and the Corporation cannot agree will be determined by a qualified independent physician jointly selected by the Executive and the Corporation (or if the Executive is unable to make such a selection, it will be made by an adult member of his immediate family). The determination of the physician, made in writing to the Corporation and to the Executive, will be final and conclusive for all purposes of this Agreement. In the event the Executive is permanently disabled, the Executive will cease to be employed on the last day of the month in which the Executive's disability is determined by written agreement of the Executive and the Corporation, or the written determination of a physician, as the case may be.

5.3 Death. If the Executive dies during the term of this Agreement, the Corporation will pay to the Executive's spouse, if surviving, or legal representatives the following compensation and benefits:

(a) Salary Continuation. The Corporation will continue to pay to the Executive's spouse, if surviving, or legal representatives, the base salary, at the same rate and in the same manner as in effect at the time the Executive dies for the longer of (i) the balance of the Initial Term of this Agreement or (ii) one year from the Executive's date of death (such, applicable period, the "5.3 Continuation Period").

(b) Fringe Benefits. The Corporation will continue to maintain throughout the 5.3 Continuation Period, at the Corporation's sole expense, for the Executive's spouse, if surviving, the health insurance coverage in effect at the time of the Executive's death.

(c) Incentive Awards/Stock Options/Corporation Stock. Any and all stock options, restricted stock and other incentive and equity-based awards granted to the Executive with respect to which he is not yet vested on the date he dies, except for awards granted under the SALT Plan (as defined in Appendix A) will become automatically 100% vested on the date of death, regardless of the satisfaction of any performance criteria.

6. Termination of Employment.

6.1 Termination Without Cause. If, at any time prior to termination of this Agreement, the Corporation terminates the Executive's employment other than for cause (as defined in Section 6.4), the Corporation will provide the Executive with the following payments and benefits:

(a) Salary. A lump sum payment, within 30 days of termination, in an amount equal to the Executive's annual base salary in effect under Section 3.1 on the date of his termination.

(b) Bonus. A bonus for the calendar year in which termination occurs in an amount calculated as follows, payable without regard to the actual performance of the Corporation for that year, and payable within 30 days of termination:

(1) If the termination occurs in 2006, the bonus will be equal to 80% of the Executive's base salary in effect at the time of termination; or

(2) If the termination occurs after 2006, the bonus will be in an amount consistent with the design of the Corporation's Short Term Incentive Compensation Plan, or similar short term incentive program, in effect at the time of termination.

(c) Notwithstanding subsections (a) and (b), if it is determined that any amounts payable under subsections (a) and (b) would violate Section 409A of the Code if paid prior to the date that is six months following the Executive's termination of employment, then those amounts will be paid in a lump sum payment on the day that is six months after the date of the Executive's termination.

(d) Incentive Awards/Options/Corporation Stock. Any and all stock options, restricted stock and other incentive and equity-based awards granted to the Executive with respect to which he is not yet vested on the date of his termination without cause, except for awards granted under the SALT Plan (as defined in Appendix A), will become automatically 100% vested on termination, regardless of the satisfaction of any performance criteria.

6.2 Termination With Good Reason.

(a) Reduction in Duties/Compensation. The Corporation will not significantly reduce the scope of the Executive's duties under the Agreement, materially diminish the Executive's title (which would include, but not be limited to, the Board of the Corporation failing to elect the Executive as the President and CEO of the Corporation), significantly reduce the total potential compensation under the Agreement, including, without limitation, fringe benefits and payments at death, or require the Executive to relocate to a location where the Corporation currently does not have, or is not currently discussing or contemplating building or placing a facility (each such event a "Reduction Event"). The parties agree that a Reduction Event shall not include a reduction or termination of benefits (including perquisites) which applies to all executives of the Corporation who participate in such plan or to any reduction or termination to which the Executive agrees. The Executive at any time during the six month period following a Reduction Event may voluntarily terminate his employment and receive the payments and benefits described in paragraph (c) below.

(b) Material Breach by the Corporation. If there is a material breach by the Corporation of this Agreement that the Corporation fails to cure within 30 days after its receipt of written notice thereof, the Executive at anytime during the six month period following the end of such 30-day period may voluntarily terminate his employment and receive the payments and benefits described in paragraph (c) below.

(c) Benefits. If the Executive terminates his employment under this Section, the Corporation will provide the Executive with the following payments and benefits:

(1) Salary. A lump sum payment, within 30 days of termination, in an amount equal to the Executive's annual base salary in effect under Section 3.1 on the date of his termination.

(2) Bonus. A bonus for the calendar year in which termination occurs in an amount calculated as follows, payable without regard to the actual performance of the Corporation for that year, and payable within 30 days of termination:

(A) If the termination occurs in 2006, the bonus will be equal to 80% of the Executive's base salary in effect at the time of termination; or

(B) If the termination occurs after 2006, the bonus will be in an amount consistent with the design of the Corporation's Short Term Incentive Compensation Plan, or similar short term incentive program, in effect at the time of termination.

(3) Notwithstanding subsections (c)(1) and (c)(2), if it is determined that any amounts payable under this subsection would violate Section 409A of the Code if paid prior to the date that is six months following the Executive's termination of employment, then those amounts will be paid in a lump sum payment on the day that is six months after the date of the Executive's termination.

(4) Incentive Awards/Options/Corporation Stock. Any and all stock options, restricted stock and other incentive and equity-based awards granted to the Executive with respect to which he is not yet vested on the date of a Reduction Event will become automatically 100% vested on the date of the Reduction Event, except for awards granted under the SALT Plan (as defined in Appendix A), regardless of the satisfaction of any performance criteria.

6.3 Change in Control. If the Executive's employment is terminated following or within six months prior to a Change in Control, as defined under the Change of Control Agreement, the Corporation will provide the Executive with the payments and benefits to which he is entitled under the terms of the Change of Control Agreement. In that regard, however, the parties agree that the intent is that (a) the Executive will be entitled to receive, in respect of an event (for example, but not limited to, any termination without cause) covered by both the Change of Control Agreement and this Agreement, the payment or payments that provide for the greatest amounts and for the longest period of time possible; and (b) that there is to be no duplication of payment.

6.4 Termination for Cause.

(a) In General. The Corporation may terminate the Executive's employment in the event the Executive does or causes to be done any act that constitutes "cause" for termination. For purposes of this Agreement, "cause" means a material breach by the Executive of this Agreement or any other written agreement between the Corporation and the Executive, gross negligence or willful misconduct in the performance of his duties, dishonesty to the Corporation, or the commission of a felony that results in a conviction in a court of law.

(b) Obligations. Should the Executive's employment be terminated by the Corporation for cause, (1) the Corporation will pay the Executive his base salary and other compensation under Article 3 of this Agreement that has accrued as of the date of the termination, and (2) any and all stock options, restricted stock, and other incentive and equity-based awards granted to the Executive in which he is not yet vested on the date of such termination will be forfeited and canceled. Notwithstanding the previous sentence, all outstanding stock options awarded under the 1998 stock option plan and the 2005 Stock Incentive Plan, whether vested or unvested, will expire on the date of the Executive's termination for cause, as defined in the plan.

6.5 Termination Without Good Reason.

(a) In General. The Executive is entitled to terminate his employment without good reason at any time.

(b) Obligations. If the Executive's employment terminates under this Section, (1) no additional compensation after the date of termination will be payable by the Corporation to the Executive, and (2) any and all stock options, restricted stock and other incentive and equity-based awards granted to the Executive in which the Executive is not vested on the date of termination will be forfeited and canceled.

6.6 Termination by Notification of Corporation.

(a) In General. The Corporation may provide the Executive with notification pursuant to Section 1.3 that the Agreement will not be renewed beyond the Initial Term or any applicable renewal term.

(b) Obligations. If the Executive's employment terminates under this
Section 6.6 as a result of such non-renewal, the Corporation will provide the Executive with payments and benefits in accordance with the terms of Section 6.1.

6.7 Options/Corporation Stock.

(a) Exercise of Options. Except for those options, if any, that are cancelled upon termination of the Executive's employment, the Executive will continue to have the right to exercise all unexercised options, including those options vested in connection with the termination, for a period of twelve months commencing on the date of the Executive's termination. Notwithstanding the foregoing, if it is determined that the extension of the right to exercise an option for a given period of time would violate Section 409A of the Code, the exercise period of the affected options will be extended only for the maximum period that would not be deemed an extension of a stock right under Section 409A of the Code and related guidance.

(b) Inconsistent Terms. To the extent that the terms of this Agreement are specifically inconsistent with any provisions in any shareholder or stock option agreement between the Executive and the Corporation, the terms of this Agreement supersede the terms of any such shareholder or stock option agreement.

7. Confidentiality.

The Executive must not, except as required in the performance of his duties under this Agreement, divulge to any person, at any time during or after the term of his employment with the Corporation, any trade secret of the Corporation, any privileged or confidential information gained as a result of his employment with the Corporation, or any document, writing or other tangible item containing or relating to any such trade secret or privileged or confidential information.

8. Non-Competition

8.1 During the term of the Agreement and for a period of 24 months after the later of (a) the termination of the Agreement or (b) the end of the last pay period in respect of which the Executive receives any compensation or other annual bonus pursuant to the Agreement, the Executive agrees that he will not directly or indirectly, for his own account or as agent, employee, officer, director, trustee, consultant or shareholder of any person (except for a one percent interest or less in any publicly traded corporation) or a member of any firm or otherwise, anywhere in the sales territory of the Corporation engage or attempt to engage in any business activity that is the same as, substantially similar to, or directly competitive with the business of the Corporation as conducted by it during the term of this Agreement, or substantially similar to or directly competitive with the related business activities of the ten largest customers of the Corporation, ranked by gross sales, at the time of the termination of the Agreement.

8.2 During the term of this Agreement and for a period of one year from the date of termination of this Agreement for any reason, the Executive agrees that he will not, directly or indirectly, for his own account or as agent, employee, officer, director, trustee, consultant or shareholder of any person, or member of any firm or otherwise, employ or solicit the employment of any person employed by the Corporation within 24 months prior to the date of the Executive's termination.

8.3 If the Executive is terminated by the Corporation without cause, the provisions of this Article 8 will be inapplicable.

9. Rights to Discoveries.

The Executive agrees that all ideas, inventions (whether patentable or unpatentable), trademarks and other developments or improvements conceived, developed or acquired by the Executive, whether or not during working hours, at the premises of the Corporation or elsewhere, alone or with others, that are within the scope of the Corporation's business operations or that relate to any work or projects of the Corporation, are the sole and exclusive property of the Corporation. The Executive agrees to disclose promptly and fully to the Corporation all such ideas, inventions, trademarks or other developments and, at the request of the Corporation, the Executive will submit to the Corporation a full written report thereof regardless of whether the request for a written report is made after the termination of this Agreement. The Executive agrees that during the term of this Agreement and thereafter, upon the request of the Corporation and at its expense, he will execute and deliver any and all applications, assignments and other instruments that the Corporation deems necessary or advisable to transfer to and vest in the Corporation the Executive's entire right, title and interest in and to all such ideas, inventions, trademarks or other developments and to permit and enable the Corporation to apply for and obtain patents or copyright or trademark registrations for any such patentable or copyrightable or trademarkable ideas, inventions, trademarks and other developments, throughout the world. To the extent applicable law provides that any such idea, invention, trademark or other development belongs to the Executive rather than the Corporation, the Executive hereby grants to the Corporation a royalty-free, non-exclusive, worldwide perpetual license to use the idea, invention, trademark or other development for no added consideration other than that given in connection with this Agreement.

10. Documents.

In addition to the obligations under Articles 7, 8 and 9, the Executive will execute any documents relating to the subject of those Articles as required generally by the Corporation of its executive officers and such documents already executed or executed after the Effective Date will thereby become part of this Agreement. In the case of any inconsistency between such documents and this Agreement, the broader provisions will prevail.

11. Notices.

All notices and other communications given pursuant to this Agreement must be in writing and will be deemed given only when (a) delivered by hand, (b) transmitted by telex, telecopier or other form of electronic transmission (provided that a copy is sent at approximately the same time by first class mail), or (c) received by the addressee, if sent by registered or certified mail, return receipt requested, or by Express Mail, Federal Express or other overnight delivery service, to the appropriate party at the address given below for such party (or to such other address designated by the party in writing and delivered to the other party pursuant to this Article 11.

If to the Corporation:

Corporate Secretary

Greatbatch Inc.
9645 Wehrle Drive
Clarence, New York 14031 Telecopier: 716-759-5672

With a copy to:

Hodgson Russ LLP

Attention: Robert B. Fleming, Jr.

One M&T Plaza, Suite 2000
Buffalo, NY 14209

Telecopier: 716-849-0349

If to the Executive:

Thomas J. Hook
9540 Lakestone Ct.
Clarence, NY 14031

With a copy to:

Kavinoky & Cook

Attention: Brian Baird 726 Exchange Street
Buffalo, NY 14210
Telecopier: 716-845-6474

12. Equitable Relief.

The Executive acknowledges that the Corporation will suffer damages incapable of ascertainment in the event that any of the provisions of Article 7, 8, 9 or 10 of this Agreement are breached and that the Corporation will be irreparably damaged in the event that the provisions of Articles 7, 8, 9 and 10 are not enforced. Therefore, should any dispute arise with respect to the breach or threatened breach of Articles 7, 8, 9 or 10 of this Agreement, the Executive agrees and consents that in addition to any and all other remedies available to the Corporation, an injunction or restraining order or other equitable relief may be issued or ordered by a court of competent jurisdiction restraining any breach or threatened breach of Articles 7, 8, 9 or 10 of this Agreement. The Executive agrees not to urge in any such action that an adequate remedy exists at law. The Executive consents to jurisdiction in New York and venue in Erie County for purposes of all claims arising under this Agreement.

13. Term of Agreement.

For the limited purpose of making payments under this Agreement, and not, for example, for purposes of extending the periods referenced in Article 8, this Agreement will not terminate until all payments under the Agreement have been made.

14. Miscellaneous.

This Agreement is governed by the internal domestic laws of the State of New York without reference to conflict of laws principles. This Agreement is binding upon and inures to the benefit of the legal representatives, successors and assigns of the parties hereto (provided, however, that the Executive does not have the right to assign this Agreement in view of its personal nature). All headings and subheadings are for convenience only and are not of substantive effect. Except as otherwise specifically provided for herein, this Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior negotiations, understandings and writings (or any part thereof) whether oral or written between the parties relating to the subject matter hereof. Except as specifically referenced herein, no agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party that are not expressly set forth in this Agreement. No provision of this Agreement may be waived, modified or amended, orally or by any course of conduct, unless such waiver, modification or amendment is set forth in a written agreement duly executed by both of the parties. If any article, section, portion, subsection or subportion of this Agreement is determined to be unenforceable or invalid, then such article, section, portion, subsection or subportion will be modified in the letter and spirit of this Agreement to the extent permitted by applicable law so as to be rendered valid, and any such determination will not affect the remainder of this Agreement, which is and will remain binding and effective as against all parties hereto.

15. Section 409A Compliance. Notwithstanding any other provision in this Agreement, to the extent that (i) the Executive is a "specified employee" with the meaning of Section 409A(a)(2)(B)(i) of the Code, (ii) any amounts payable under this Agreement represent amounts that are subject to Section 409A of the Code, and (iii) such amounts are payable on the Executive's "separation from service," within the meaning of Section 409A of the Code, then such amounts will not be payable to the Executive before the date that is six months after the Executive's separation from service. Further, if the time or form of payment of any amounts under this Agreement would not be in compliance with Section 409A of the Code, then payment of those amounts will be made at such time and in such a manner that the payment will be in compliance with Section 409A of the Code. If the time or form of payment cannot be modified in such a way as to be in compliance with Section 409A of the Code, then the payment will be made as otherwise provided in this Agreement, disregarding this Section.

[THE SIGNATURE PAGE FOLLOWS}

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date set forth below.

Dated: August 8, 2006 *"/s/ Thomas J. Hook"*

Thomas J. Hook

GREATBATCH INC.

Dated: August 8, 2006 *"/s/ Edward F. Voboril"*

Edward F. Voboril, Chairman

STATE OF NEW YORK)

: ss.

COUNTY OF ERIE)

On this 8th day of August, 2006, before me personally came Thomas J. Hook, to me known and known to me to be the same person described in and who executed the foregoing instrument, and he duly acknowledged to me that he executed the same.

"/s/ Mary E. Crehan"

Mary E. Crehan, Notary

STATE OF NEW YORK)

: ss.

COUNTY OF ERIE)

On this 8th day of August, 2006 before me personally came Edward F.
Voboril, to me personally known, who, being by me duly sworn, did depose and say that he resides at No. 5526 Hemdale Dr. in the Village of Williamsville, State of New York; that he is the Chairman of GREATBATCH INC., the corporation described in and which executed the foregoing instrument; and that he signed his name thereto by order of the Board of Directors of said corporation.

APPENDIX A

Thomas J. Hook Employment Agreement
Greatbatch Inc. Incentive and Equity-Based Awards
In Effect as of August 8, 2006

I. Award Levels - Current Program

2006 STIC Plan @80% level
2006 SALT Plan @100% level (the "SALT Plan") 2007 LTIP Plan to be at 125% level

II. Commensurate levels thereafter for award programs

APPENDIX B

The Promotion Awards

I. Restricted Stock. The Executive will receive a grant of 50,000 restricted shares of Common Stock subject to the vesting and other conditions set forth in Part III below.

II. Options. The Executive will be granted a non-qualified stock option to acquire 25,000 shares of Common Stock, which option shall be deemed granted as of the date this Agreement is approved by the Board and with an option exercise price equal to the closing price for Greatbatch Common Stock on such date (August 8, 2006), and otherwise subject to the vesting and other conditions set forth in Part III below.

III. Conditions. The restricted stock and options will be issued or granted, as applicable, under the Corporation's 2005 Stock Incentive Plan and subject to all of the term and conditions thereof. The restricted shares and options shall each vest as follows:

Percentage of Shares/Options Vesting	Vesting Period
0%	Years 2006 and 2007
25%	December 31, 2008
25%	December 31, 2009
50%	December 31, 2010

7/24/06 Version

Exhibit 10.2

GREATBATCH, INC.
9645 Wehrle Drive
Clarence, New York 14031

November 3, 2006

Larry T. DeAngelo
4190 Kalayne Lane
Williamsville, New York 14221

Dear Larry:

Re: Voluntary Retirement

This letter is intended to set forth the mutual understandings and agreements between Greatbatch, Inc. ("Company") and you with respect to your voluntary retirement from the Company, as follows:

1. Background. Reference is made to your letter to the Company, dated October 16, 2006, requesting approval for you to retire under the terms and conditions of the Greatbatch, Inc. Board Guidelines for Treatment of Executive Retirement Equity Compensation, effective January 31, 2008, which request was recommended for approval by the President and Chief Executive Officer of the Company and approved by the Compensation and Organization Committee of the Company's Board of Directors on the terms provided for herein. Additionally, such request was unanimously approved by the Board of Directors upon motion duly made and seconded. For purposes hereof, the term "Termination Date" will mean January 31, 2008.

2. Continued Services. You will continue as an employee of the Company until the Effective Date. You will continue to serve as Secretary of the Company until December 19, 2006 or until your successor is named by the Board of Directors. Your position as Senior Vice President Administration of the Company will end as of October 31, 2006. As of such date, you will become a senior advisor to the Chairman and to the President and Chief Executive Officer of the Company and agree to perform such services on behalf of the Company as they may request through the Termination Date. All services after December 20, 2006 must be authorized by the President and Chief Executive Officer.

Without limiting the foregoing, you agree to make yourself available at reasonable times and places to:

(a) fully cooperate and assist with the transition of your duties and responsibilities;

(b) fully cooperate and assist with any examination of the Company conducted by regulatory authorities having jurisdiction over the Company, including attendance at meetings and production of notes and records that may be in Company's possession;

(c) fully cooperate and assist the Company in any internal investigations or audits; and

(d) provide consultative assistance to the Company. The Company will reimburse you any reasonable out of pocket expenses associated with requests for assistance under this provision, including travel, lodging and meals.

3. Salary Continuation and Benefits.

(a) The Company will continue to pay you your salary (as in effect on the date hereof), less required withholding and deductions, through the Termination Date consistent with the Company's normal payroll practices.

(b) At the Company's expense, you will be continued in the Company's health plan through the Termination Date at the same level and on the same terms as provided active employees at a level consistent with the position that you held as an officer of the Company. The Termination Date (January 31, 2008) shall be considered a qualifying event for purposes of the Consolidated Omnibus Budget Reconciliation Act of 1986 ("COBRA") and any COBRA continuation obligations shall run from the Termination Date (additional coverage may be available thereafter pursuant to COBRA).

(c) Reference is made to the Company's Short Term Incentive Compensation Plan ("STIC"). To the extent that all terms and conditions under the STIC for the payment of any bonuses are met for the Company's 2006 and 2007 fiscal year, then, notwithstanding that your position as Senior Vice President Administration and Secretary will terminate, the Company will pay you, less required withholding and deductions: (A) any bonus under the STIC in respect of the 2006 fiscal year for which you would otherwise be eligible, at the actual plan-achieved level, such payment to be made in 2007 at the same time as bonuses are paid to other participants in the STIC, and (B) any bonus under the STIC in respect of the Company's 2007 fiscal year for which you would otherwise be eligible, at the actual plan- achieved level plus $100,000, such payments to be made in 2008 at the same time as bonuses are paid to other participants in the STIC.

(d) All other benefits which you currently receive or for which you are reimbursed (e.g., insurance, car, physicals, etc.) shall continue through, and terminate on, the Termination Date.

4. Equity Compensation Awards. Subject to your ongoing compliance with the terms and conditions of this letter agreement:

(a) The Compensation and Organization Committee will consider you for grants of awards in calendar year 2007 pursuant to the Company's 2005 Stock Incentive Plan, including possible grants of restricted stock and nonqualified stock options. The grants will be allocated to restricted stock (instead of options or other awards) to the greatest extent then permitted by the Company for executives under such plan.

(b) All of your restricted stock awards and stock options awards which are subject to a time-based vesting or exercise condition will become fully vested on the Termination Date and will be exercisable for a period up to 90 days after the Termination Date.

(c) With respect to equity compensation awards (i) where vesting or excercisability is based on the achievement of certain performance-based goals
(e.g., the awards designated as Supplemental Annual Long Term, or "SALT" Awards) (collectively, the "Performance Based Awards") and (ii) where such Performance Based Awards are, as of the Termination Date, "on target" (as hereinafter defined), such Performance-Based Awards will be vested and exercisable as follows:

A. Performance-Based Awards granted in 2005 or before will be fully vested.

B. Performance-Based Awards awarded in 2006 are terminated as of the date hereof.

Performance-Based Awards which are vested, as provided herein, will become exercisable if the specified performance goals specified in the SALT plan (or other applicable plan) are achieved, as certified by the Compensation and Organization Committee, and will be exercisable for a period of 90 days following such certification of the satisfaction of the performance goals.

(d) Any performance based awards as to which the Compensation and Organization Committee does not certify the achievement of the performance goals specified in the SALT plan (or other applicable Plan) will expire pursuant to their terms.

(e) For purposes hereof, Performance Based Awards will be deemed to be "on target" if the Company is, as of the Termination Date, accruing a liability for anticipated expenses thereunder.

5. Releases.

(a) The parties agree and acknowledge that the consideration to be provided to you, as set forth above in Sections 3 and 4, is being provided to extinguish and release any and all claims that you may have against the Company and any of its past, present or future parent companies, subsidiaries, affiliates, and all their respective past, present and future employees, officers, directors, trustees, shareholders, agents, and successors and assigns (collectively, "Releasees"), and that this consideration to be provided to you exceeds anything of value to which you would otherwise be entitled.

(b) For and in consideration of the promises and other valuable consideration paid to you pursuant to this letter agreement, you hereby release and discharge the Releasees from any and all claims, demands, causes of action, and liabilities of any kind whatsoever, whether known or unknown, which you ever had, now have or may hereafter have against the Releasees by reason of any actual or alleged act, omission, transaction, practice, conduct, occurrence, or other matter, except for (i) those rights expressly reserved in this letter agreement and (ii) any and all rights that you have to seek indemnification under the By-laws of the Company or any subsidiary thereof or under Delaware or New York law in respect of any action or threatened action against you by reason of the fact that you are, or were at any time, an officer, director or agent of the Company, such subsidiary or any trust. You further agree that this clause will apply to, and be binding upon, your heirs, executors and assigns.

(c) Without limiting the generality of Section 5(a) or 5(b) above or characterizing the nature of your claims, this document releases the Releasees from (i) any and all claims arising out of your employment with the Company;
(ii) any and all claims (whether based on a federal, state or local stature, or court decision) including, but not limited to, claims under the Age Discrimination in Employment Act, Title VII of the Civil Rights Act of 1964, the American with Disabilities Act, the Employee Retirement and Income Security Act, the Sarbanes-Oxley Act of 2002, the New York Human Rights Law, the New York Labor Law, and/or any other federal, state or local statute or court decision;
(iii) any and all claims for breach of contract; (iv) any and all claims for lost wages, bonuses, back pay, front pay, employee benefits, including severance pay, or for damages or injury of any type whatsoever, including, but not limited to, defamation, injury to reputation, intentional or negligent infliction of emotional distress, (whether arising by virtue of statute or common law, and whether based upon negligent or willful actions or omissions); and (v) any and all claims for compensatory or punitive damages, attorneys' fees, costs and disbursements which you (or any heir, executor or assignee) ever had, now have or hereafter can, shall or may have against the Releasees for, upon or by reason of any actual or alleged act, omission, transaction, practice, conduct, occurrence or other matter up to and including the date of the execution of this letter agreement by you, except for those rights expressly reserved in this letter agreement.

(d) Except for your rights to enforce this letter agreement and your rights to indemnification to the extent permitted by law as acknowledged in Section 5(b) above, you covenant, to the maximum extent permitted by law, that you shall not at any time hereafter commence, maintain, prosecute, participate in, or permit to be filed by any other person on your behalf, any action, charge, complaint, suit or proceeding or any kind, before any court, administrative agency, or other tribunal, against any of the Releasees with respect to any actual or alleged act, omission, transaction, practice, conduct, occurrence or other matter up to and including the date of the execution of this letter agreement by you.

(e) The Company voluntarily releases and discharges the Executive and his heirs, successors, administrators, representatives and assigns from all claims, debts, demands, accounts, judgments, rights, causes of action, equitable relief, damages, costs, changes, complaints, obligations, promises, agreements, controversies, suits, expenses, compensation, responsibility and liability of every kind and character whatsoever (including attorneys' fees and costs), whether in law or equity (collectively, "Claims") which it may have against the Executive as the result of his employment or the discontinuance of his employment that are based upon facts known, or which in the exercise of reasonable diligence should have been known, to the Company's Board of Directors other than its rights to enforce the terms of this letter agreement and the terms and conditions of all employee benefit plans of the Company.

6. Confidentiality. You agree to hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company and its businesses, which shall have been obtained by you during your employment by the Company and which shall not be or become public knowledge (other than by acts by you or your representatives in violation of this letter agreement). After termination of your employment with the Company, you shall not, without prior written consent of the Company, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In addition, to the extent that you are a party to any other agreement or policy relating to noncompetition, confidential information, inventions or similar matters with the Company, you shall continue to comply with the provisions of such agreements and policies. Nothing in this letter agreement shall be construed as modifying any provisions of such agreements or policies. In the case of any inconsistency between such agreements or policies and this letter agreement, the broader provision shall prevail. In no event shall an asserted violation of the provisions of this Section constitute a basis for deferring or withholding any amounts otherwise payable to you under this letter agreement, except if you materially breach this section or a covenant not to compete or confidentiality provision in any such agreement or document, that breach shall be considered a material breach of this letter agreement.

7. Breach. Any material breach by you of this letter agreement, shall be considered a breach for which the Company shall be entitled to cease the payments and benefits described in Sections 3 and 4 of this letter agreement after providing you with at least five (5) calendar days written notice of such breach and your failure to cure such breach, in addition to any other remedies to which the Company may be entitled by law.

8. SEC Reporting. You acknowledge your obligation to report transactions in capital stock of the Company and agree that through, and for a period of six (6) months following, the Termination Date, you will furnish timely information of any such transactions to the Company.

9. Unenforceable Provisions. If any provision of this letter agreement is held to be illegal, void or unenforceable, such provisions shall have no effect upon, and shall not impair the legality or enforceability of, any other provision of this letter agreement.

10. Binding Effect. This letter agreement is binding upon, and shall inure to the benefit of, the parties and their respective heirs, executors, representatives, successors and assigns.

11. No Admission. The making of this letter agreement is not intended, and shall not be construed, as any admission that the Company or any of the Releasees has violated any federal, state, or local law, or has committed any wrong against you or any other person or entity.

12. Opportunity to Review. You acknowledge and warrant that:

(a) You have had the opportunity to consider, up to twenty-one days, the terms and provisions of this letter agreement;

(b) You have been advised by the Company in this writing to consult, and have had adequate opportunity to consult with, an attorney of your choosing prior to executing this letter agreement;

(c) You have carefully read this letter agreement in its entirety, have had an opportunity to have its provisions explained to you by an attorney of your choosing, and fully understands the significance of all of its terms and provisions; and

(d) You are signing this Agreement voluntarily and of your own free will and assents to all of the terms and conditions contained herein.

13. Effective Date. This letter agreement shall not become effective until the eighth day following its execution by you (the "Effective Date"). You shall have the right to revoke this letter agreement for a period of seven (7) days following your execution of this letter agreement by giving written notice by personal delivery of such revocation to Barbara M. Davis, Vice President for Human Resources and Organizational Development, 10,000 Wehrle Drive, Clarence, NY 14031. If you revoke this letter agreement prior to the Effective Date, the promises and obligations contained herein shall be null and void.

14. Entire Agreement. This letter agreement is the entire agreement between the parties with respect to the subject matter hereof, and your duties, compensation and benefits; and, except as otherwise specifically provided herein, supersedes all prior communications, representations, agreements, understandings, plans and arrangements between the parties, whether oral or written, including but not limited to the Change of Control Agreement between you and the Company dated on or about December 17, 2001 (as amended, if applicable).

15. Company Property. You agree to return, immediately upon the Company's request but no later than the Termination Date, all the Company's property in your custody or possession, whether created by you or others, including but not limited to any keys or electronic cards providing access to any of the Company's facilities, personal or laptop computers, handheld computers, the originals and all copies of all documents, files, reports, letters, memoranda, records, data, flow charts, promotional materials, agreements, market studies and other tangible material containing confidential or proprietary information concerning the Company, its affiliates, subsidiaries, officers, board members of employees.

If this letter sets forth our mutual agreements, please so confirm by countersigning this letter in the space provided below.

Very truly yours,

GREATBATCH, INC.

By: /s/ Thomas J. Hook

Thomas J. Hook
President and CEO

AGREED TO AND CONFIRMED

/s/ Larry T. DeAngelo

Larry T. DeAngelo

Dated: November 3, 2006

Exhibit 31.1

CERTIFICATION

I, Thomas J. Hook, certify that:

1. I have reviewed this report on Form 10-Q for the fiscal quarter ended September 29, 2006 of Greatbatch, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation;

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditor and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2006

/s/ Thomas J. Hook

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

Exhibit 31.2

CERTIFICATION

I, Thomas J. Mazza, certify that:

1. I have reviewed this report on Form 10-Q for the fiscal quarter ended September 29, 2006 of Greatbatch, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation;

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditor and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2006 *|s| Thomas J. Mazza*

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

Exhibit 32

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

The Quarterly Report on Form 10-Q for the quarter ended September 29, 2006 (the "Form 10-Q ") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 7, 2006 */s/ Thomas J. Hook*

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

Dated: November 7, 2006 */s/ Thomas J. Mazza*

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

This certification is being furnished solely to accompany this Form 10-Q pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of
Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise, and is not to be deemed incorporated by reference into any filing of the Company except to the extent the company specifically incorporates it by reference therein.