GREATBATCH, INC.
Form 10-Q
August 06, 2008

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 June 27, 2008

Commission File Number 1-16137

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

Delaware
(State of incorporation)

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

10000 Wehrle Drive
Clarence, New York
14031
(Address of principal executive offices)

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

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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the Registrant is a shell company (as defined in 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 August 5, 2008 was: 22,865,584 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)

	As of	
ASSETS	June 27, 2008	December 28, 2007
Current assets:		
Cash and cash equivalents	$ 20,011	$ 33,473
Short-term investments available for sale	1,558	7,017
Accounts receivable, net of allowance of $1,257 in 2008 and $758 in 2007	84,345	56,962
Inventories, net of reserve	93,638	71,882
Refundable income taxes	3,049	377
Deferred income taxes	7,425	6,469
Prepaid expenses and other current assets	6,164	5,044
Total current assets	216,190	181,224
Property, plant and equipment, net	167,286	114,946
Amortizing intangible assets, net	96,638	71,268
Trademarks and tradenames	34,835	32,582
Goodwill	298,834	248,540
Other assets	15,797	15,291
Total assets	$ 829,580	$ 663,851
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 54,479	$ 33,433
Accrued expenses and other current liabilities	32,758	30,975
Current portion of long-term debt	2,000	-
Total current liabilities	89,237	64,408
Long-term debt	355,943	241,198
Deferred income taxes	41,444	35,346
Other long-term liabilities	4,523	228
Total liabilities	491,147	341,180
Stockholders' equity:		
Preferred stock, $0.001 par value, authorized 100,000,000 shares; no shares issued or outstanding in 2008 or 2007	-	-
Common stock, $0.001 par value, authorized 100,000,000 shares; 22,865,584 shares issued and outstanding in 2008 and 22,477,340 shares issued and 22,470,299 shares outstanding in 2007	23	22
Additional paid-in capital	246,139	238,574
Treasury stock, at cost, no shares in 2008 and 7,041 shares in 2007	-	(140)
Retained earnings	86,646	84,215
Accumulated other comprehensive income	5,625	-
Total stockholders' equity	338,433	322,671
Total liabilities and stockholders' equity	$ 829,580	$ 663,851

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

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

	Three months ended		Six months ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Sales	$ 141,648	$ 78,462	$ 263,802	$ 155,322
Costs and expenses:				
Cost of sales - excluding amortization of intangible assets	99,332	45,762	193,077	93,050
Cost of sales - amortization of intangible assets	1,721	994	3,431	1,942
Selling, general and administrative expenses	18,657	10,735	37,004	20,768
Research, development and engineering costs, net	7,705	6,981	16,929	13,433
Acquired in-process research and development	-	18,353	2,240	18,353
Other operating expense, net	2,881	1,988	3,909	3,521
Operating income (loss)	11,352	(6,351)	7,212	4,255
Interest expense	3,209	2,089	6,640	3,233
Interest income	(125)	(2,586)	(521)	(4,442)
Gain on sale of investment security	-	(4,001)	-	(4,001)
Gain on extinguishment of debt	-	-	-	(4,473)
Other (income) expense, net	94	102	(1,363)	86
Income (loss) before provision for income taxes	8,174	(1,955)	2,456	13,852
Provision for income taxes	2,369	1,444	25	6,582
Net income (loss)	$ 5,805	$ (3,399)	$ 2,431	$ 7,270
Earnings (loss) per share:				
Basic	$ 0.26	$ (0.15)	$ 0.11	$ 0.33
Diluted	$ 0.25	$ (0.15)	$ 0.11	$ 0.33
Weighted average shares outstanding:				
Basic	22,536	22,160	22,461	22,087
Diluted	23,935	22,160	22,570	22,367
Comprehensive income:				
Net income (loss)	$ 5,805	$ (3,399)	$ 2,431	$ 7,270
Foreign currency translation adjustment	(1,929)	-	5,280	-
Unrealized gain (loss) on interest rate swap, net of tax	786	-	325	-
Unrealized gain (loss) on short-term investments:				
Unrealized gain (loss) on short-term investments during the period, net of tax	(15)	(643)	20	(869)
Less: reclassification adjustment for net realized gain on short-term investments during the period, net of tax	-	(2,601)	-	(2,601)
	(15)	(3,244)	20	(3,470)
Other comprehensive income (loss)	(1,158)	(3,244)	5,625	(3,470)
Comprehensive income (loss)	$ 4,647	$ (6,643)	$ 8,056	$ 3,800

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

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

	Six months ended June 27, 2008	Six months ended June 29, 2007
Cash flows from operating activities:		
Net income	$ 2,431	$ 7,270
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,568	10,878
Stock-based compensation	5,453	4,877
Gain on sale of investment security	-	(4,001)
Gain on extinguishment of debt	-	(4,473)
Acquired in-process research and development	2,240	18,353
Other non-cash gains	(41)	(82)
Deferred income taxes	557	(9,841)
Changes in operating assets and liabilities:		
Accounts receivable	(16,018)	1,225
Inventories	(914)	798
Prepaid expenses and other current assets	141	(1,020)
Accounts payable	11,160	6,818
Accrued expenses and other current liabilities	(423)	(7,070)
Income taxes refundable/payable	(2,791)	5,158
Net cash provided by operating activities	27,363	28,890
Cash flows from investing activities:		
Purchase of short-term investments	(2,010)	(47,713)
Proceeds from maturity/disposition of short-term investments	7,469	78,960
Acquisition of property, plant and equipment	(20,048)	(5,183)
Purchase of cost method investments	(2,500)	(2,000)
Acquisitions, net of cash acquired	(105,197)	(108,054)
Other investing activities	210	315
Net cash used in investing activities	(122,076)	(83,675)
Cash flows from financing activities:		
Borrowings (repayments) under short-term line of credit	-	(1,000)
Principal payments of long-term debt	(34,690)	(6,093)
Proceeds from issuance of long-term debt	117,000	76,000
Debt issuance costs	(15)	(6,445)
Issuance of common stock	151	2,550
Excess tax benefits from stock-based awards	17	340
Repurchase of treasury stock	(793)	(205)
Net cash provided by financing activities	81,670	65,147
Effect of foreign currency exchange rates on cash and cash equivalents	(419)	-
Net increase (decrease) in cash and cash equivalents	(13,462)	10,362
Cash and cash equivalents, beginning of year	33,473	71,147
Cash and cash equivalents, end of period	$ 20,011	$ 81,509

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

GREATBATCH, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY - Unaudited
(in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock Shares	Treasury Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance, December 28, 2007	22,477	$ 22	$ 238,574	(7)	$ (140)	$ 84,215	$ -	$ 322,671
Stock-based compensation	-	-	3,336	-	-	-	-	3,336
Grant/forfeiture of restricted stock	102	1	(793)	36	793	-	-	1
Vesting of restricted stock units	51	-	-	-	-	-	-	-
Exercise of stock options	8	-	151	-	-	-	-	151
Repurchase of shares to settle employee tax witholding on vested restricted stock and restricted stock units	-	-	-	(29)	(653)	-	-	(653)
Tax impact from stock based awards	-	-	(74)	-	-	-	-	(74)
Shares issued in connection with the Quan Emerteq acquisition	60	-	1,473	-	-	-	-	1,473
Shares contributed to 401(k) Plan	168	-	3,472	-	-	-	-	3,472
Net income	-	-	-	-	-	2,431	-	2,431
Total other comprehensive income	-	-	-	-	-	-	5,625	5,625
Balance, June 27, 2008	22,866	$ 23	$ 246,139	-	$ -	$ 86,646	$ 5,625	$ 338,433

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

GREATBATCH, INC.
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. and its wholly-owned subsidiary Greatbatch Ltd. (collectively "Greatbatch" or 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 28, 2007 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 28, 2007. 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 second quarter of 2008 and 2007 each contained 13 weeks and ended on June 27, and June 29, respectively.

2. ACQUISITIONS

P Medical Holding SA
On January 7, 2008, the Company acquired P Medical Holding SA ("Precimed") with administrative offices in Orvin, Switzerland and Exton, PA, manufacturing operations in Switzerland and Indiana and sales offices in Japan, China and the United Kingdom. This transaction diversifies the Company's revenue and establishes the Company as a leading supplier to the orthopedics industry.

This transaction was accounted for under the purchase method of accounting in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141 Business Combinations. Accordingly, the results of Precimed's operations were included in the condensed consolidated financial statements from the date of acquisition. The aggregate purchase price was $80.8 million, consisting of the cash issued at closing to Precimed shareholders ($77.5 million), and other direct acquisition-related costs, including financial advisory, legal and accounting services ($3.3 million). Additionally, the purchase agreement includes a contingent payment which can range from 0 Swiss Francs ("CHF") to 12,000,000 CHF depending on Precimed's 2008 earnings performance. Based upon the exchange ratio of 0.9779 CHF per one U.S. dollar as of June 27, 2008, the maximum contingent payment would be approximately $11.7 million and is subject to change due to foreign currency fluctuations and the final calculation of the contingent payment. The purchase price was funded with cash on hand and borrowings under the Company's revolving credit agreement. Concurrently with the close of the Precimed acquisition, the Company repaid a portion of the long-term debt assumed of $31.7 million.

The cost of the acquisition was allocated to the assets acquired and liabilities assumed from Precimed based on their preliminary fair values as of the acquisition date, with the amount exceeding the fair value recorded as goodwill. As the estimated fair values of certain assets and liabilities are preliminary in nature, they are subject to adjustment as additional information is obtained, including, but not limited to, settlement of the contingent payment, the finalization of our intangible asset valuation, the final reconciliation and valuation of tangible assets, the Company incurring direct acquisition costs in connection with this transaction and the resolution of pre-acquisition tax positions. The valuations will be finalized within 12 months of the close of the acquisition. Any changes to the preliminary valuation may result in material adjustments to the fair value of the assets and liabilities acquired, as well as goodwill.

The following table summarizes the preliminary allocation of the cost of the acquisition to the assets acquired and liabilities assumed as of the close of the acquisition (in thousands):

(in thousands)		As of January 7, 2008
Assets acquired		
Current assets	$	34,387
Property, plant and equipment		25,610
Acquired IPR&D		2,240
Amortizing intangible assets		28,902
Trademarks and tradenames		2,163
Goodwill		41,679
Other assets		1,591
Total assets acquired		136,572
Liabilities assumed		
Current liabilities		23,224
Long-term liabilities		32,510
Total liabilities assumed		55,734
Purchase price	$	80,838

The fair values of the assets acquired were preliminarily determined using one of three valuation approaches: market, income and cost. The selection of a particular method for a given asset depended on the reliability of available data and the nature of the asset, among other considerations. The market approach, which estimates the value for a subject asset based on available market pricing for comparable assets, was utilized for land and in-process and finished inventory. The income approach, which estimates the value for a subject asset based on the present value of cash flows projected to be generated by the asset, was used for certain intangible assets such as technology and patents, customer relationships, trademarks and tradenames, in-process research and development (“IPR&D”) and for the noncompete agreements with employees. The projected cash flows were discounted at a required rate of return that reflects the relative risk of the Precimed transaction and the time value of money. The projected cash flows for each asset considered multiple factors, including current revenue from existing customers, attrition trends, reasonable contract renewal assumptions from the perspective of a marketplace participant, and expected profit margins giving consideration to historical and expected margins. The cost approach was used for the majority of real and personal property and raw materials inventory. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the property, less an allowance for loss in value due to depreciation or obsolescence, with specific consideration given to economic obsolescence if indicated.

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

The fair value of the in-process and finished inventory acquired was estimated by applying a version of the market approach called the comparable sales method. This approach estimates the fair value of the asset by calculating the potential sales generated from selling the inventory and subtracting from it the costs related to the completion and sale of that inventory and a reasonable profit allowance. Based upon this methodology, the Company recorded the inventory acquired at fair value resulting in an increase in inventory of $5.6 million. During the first quarter of 2008, the Company expensed as cost of sales the step-up value relating to the acquired Precimed inventory sold during 2008. As of June 27, 2008, there was no inventory step-up value remaining to be expensed. Raw materials inventory was valued at replacement cost.

Property, plant and equipment ("PP&E") - The fair value of the PP&E acquired was estimated by applying the cost approach for personal property, buildings and building improvements and the market approach for land. The cost approach was applied by developing a replacement cost and adjusting for depreciation and obsolescence. The value of the land acquired was derived from market prices for comparable properties.

Intangible assets - The purchase price was allocated to specific intangible assets on a preliminary basis as follows (dollars in thousands):

		Fair Value assigned	Weighted average amortization period (years)	Weighted average discount rate
Amortizing intangible assets				
Customer relationships	$	16,120	20	13%
Technology and patents		11,762	15	14%
Noncompete agreements		1,020	5	13%
	$	28,902	17	13%
Trademarks and tradenames	$	2,163	indefinite	13%
Acquired IPR&D	$	2,240	-	14%

Customer relationships – Customer relationships represent the preliminary estimated fair value of both the contractual and non-contractual customer relationships Precimed has with OEMs as of the acquisition date. The primary customers of Precimed include Johnson & Johnson, Smith & Nephew, Stryker, Medtronic and Zimmer, some of which are also customers of Greatbatch. These relationships were valued separately from goodwill at the amount which an independent third party would be willing to pay for these OEM relationships. The fair value of customer relationships was determined using the multi-period excess-earnings method, a form of the income approach. The Company determined that the estimated useful life of the intangible assets associated with the existing customer relationships is 20 years. This life was based upon historical customer attrition and management's understanding of the industry and regulatory environment. The expected cash flows associated with these customer relationships were nominal after 20 years.

Technology and patents - Technology and patents consists of technical processes, patented and unpatented technology, manufacturing know-how and the understanding with respect to products or processes that have been developed by Precimed and that will be leveraged in current and future products. The fair value of technology and patents acquired was determined utilizing the relief from royalty method. The Company determined that the weighted average estimated useful life of the technology and patents is 15 years. This life is based upon management's estimate of the product life cycle associated with technology and patents before they will be replaced by new technologies. The expected cash flows associated with technology and patents were nominal after 15 years.

Trademarks and tradenames – Trademarks and tradenames represent the estimated fair value of corporate and product names acquired from Precimed, which will be utilized by the Company in the future. These included the "Precimed" corporate tradename as well as product names. These tradenames were valued separately from goodwill at the amount which an independent third party would be willing to pay for use of these names. The fair value of the trademarks and tradenames was determined by applying the relief from royalty method of the income approach. The tradenames are inherently valuable as the Company believes they convey favorable perceptions about the products with which they are associated. This in turn generates consistent and increased demand for the products, which provides the Company with greater revenues, as well as greater production and operating efficiencies. Thus, the Company will realize larger profit margins than companies without the tradenames. At this time, the Company intends to utilize these trademarks and tradenames for an indefinite period of time, thus these intangible assets are not being amortized but are tested for impairment on an annual basis.

Acquired IPR&D - Approximately $2.2 million of the purchase price represents the estimated fair value of acquired IPR&D projects that had not yet reached technological feasibility and had no alternative future use. Accordingly, the amount was immediately expensed on the acquisition date and is not deductible for tax purposes. The value assigned to IPR&D related to Reamer, Instrument Kit, Locking Plate and Cutting Guide projects. These projects primarily represent the next generation of products already being sold by Precimed which incorporate new enhancements and customer modifications. The Company expects to commercially launch these products in 2008 and 2009. For purposes of valuing the IPR&D, the Company estimated total costs to complete the projects to be approximately $0.2 million. If the Company is not successful in completing these projects on a timely basis, future sales may be adversely affected resulting in erosion of the Company's market share.

The fair value of these projects was determined based on the excess earnings method. This model utilized discount rates that took into consideration the internal rate of return expected from the Precimed transaction and the risks surrounding the successful development and commercialization of each of the IPR&D projects. The Company believes that the estimated acquired IPR&D amounts represent their fair value at the date of acquisition and do not exceed the amount an independent third party would be willing to pay for the projects.

Goodwill - The excess of the purchase price over the preliminary fair value of net tangible and intangible assets acquired of $41.7 million was allocated to goodwill. Various factors contributed to the establishment of goodwill, including: the value of Precimed's highly trained assembled work force and management team; the expected revenue growth over time that is attributable to increased market penetration from future products and customers; and the incremental value to the Company's IMC business from expanding and diversifying its revenues. The goodwill acquired in connection with the Precimed acquisition was allocated to the Company's IMC business segment and is not deductible for tax purposes.

GREATBATCH, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Unaudited

DePuy Orthopedics Chaumont, France Facility
On February 11, 2008, Precimed completed its previously announced acquisition of DePuy Orthopedics ("DePuy") Chaumont, France manufacturing facility (the "Chaumont Facility"). The Chaumont Facility produces hip and shoulder implants for DePuy Ireland which distributes them worldwide through various DePuy selling entities. This transaction, which included a new four year supply agreement with DePuy, enhances Greatbatch's and Precimed's strategic relationship with one of the largest orthopedic companies in the world. The addition of this facility will align Precimed closer to its orthopedic OEM customers and further extends its offerings to a full range of orthopedic implants.

This transaction was accounted for under the purchase method of accounting. Accordingly, the results of the Chaumont Facility were included in our condensed consolidated financial statements from the date of acquisition. The aggregate purchase price was approximately $28.7 million, consisting of the cash issued to DePuy ($27.0 million), and other direct acquisition-related costs, including financial advisory, transfer tax, legal and accounting fees ($1.7 million). The aggregate purchase price was preliminarily allocated to the assets acquired ($6.5 million inventory, $13.4 million PP&E) and liability assumed from the Chaumont Facility based on their fair values as of the close of the acquisition, with the amount exceeding the fair value recorded as goodwill ($6.0 million). As the values of certain assets and liabilities are preliminary in nature, they are subject to adjustment as additional information is obtained, including, but not limited to, the finalization of our valuation, the final reconciliation and confirmation of tangible assets, the Company incurring direct acquisition costs in connection with this transaction and the resolution of tax positions. Any changes to the preliminary valuation may result in material adjustments to the fair value of the assets and liabilities acquired, as well as goodwill.

Various factors contributed to the establishment of goodwill, including: the value of the Chaumont Facility's highly trained assembled work force; the expected revenue growth over time and the incremental value to the Company's Orthopedics business from having the capability to manufacture joint implants; and the strategic partnership established with one of the largest orthopedic companies in the world. Goodwill resulting from the Chaumont Facility acquisition was allocated to the Company's IMC business segment and is not deductible for tax purposes.

Pro Forma Results (Unaudited)
The following unaudited pro forma information presents the consolidated results of operations of the Company, Precimed, and the Chaumont Facility as if those acquisitions had occurred as of the beginning of each of the fiscal periods presented. Additionally, 2007 amounts reflect the Company's 2007 acquisition of Enpath Medical, Inc. (June 2007) ("Enpath"), Quan Emerteq LLC (November 2007) ("Quan") and Engineered Assemblies Corporation ("EAC") (November 2007) as if those acquisitions had occurred as of the beginning of 2007 (in thousands, except per share amounts):

	Three months ended		Six months ended	
(Unaudited)	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Sales	$ 141,648	$ 128,426	$ 273,146	$ 260,360
Net income	5,805	8,215	8,710	17,411
Earnings per share:				
Basic	$ 0.26	$ 0.37	$ 0.39	$ 0.79
Diluted	$ 0.25	$ 0.36	$ 0.38	$ 0.73

GREATBATCH, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Unaudited

The unaudited pro forma information presents the combined operating results of Greatbatch, Precimed, the Chaumont Facility, Enpath, Quan and EAC, with the results prior to the acquisition date adjusted to include the pro forma impact of the amortization of acquired intangible assets and depreciation of fixed assets based on the preliminary purchase price allocation, the elimination of the non-recurring IPR&D charge ($2.2 million in 2008 and $16.1 million in 2007) and inventory step-up amortization recorded by Greatbatch ($6.4 million in 2008 and $0.2 million in 2007), the adjustment to interest income/expense reflecting the cash paid in connection with the acquisition, including acquisition-related expenses, at Greatbatch's weighted average interest income/expense rate, and the impact of income taxes on the pro forma adjustments utilizing the applicable statutory tax rate, except for IPR&D which is not deductible for tax purposes. The unaudited pro forma consolidated basic and diluted earnings per share are based on the consolidated basic and diluted weighted average shares of Greatbatch.

The unaudited pro forma results are presented for illustrative purposes only and do not reflect the realization of potential cost savings, and any related integration costs. Certain cost savings may result from the acquisition; however, there can be no assurance that these cost savings will be achieved. These pro forma results do not purport to be indicative of the results that would have actually been obtained if the acquisitions occurred as of the beginning of each of the periods presented, nor does the pro forma data intend to be a projection of results that may be obtained in the future.

3. SUPPLEMENTAL CASH FLOW INFORMATION

	Six months ended	
	June 27, 2008	June 29, 2007
Noncash investing and financing activities (in thousands):		
Net unrealized loss on available-for-sale securities	$ -	$ (869)
Unrealized gain on interest rate swap, net	325	-
Common stock contributed to 401(k) Plan	3,472	2,956
Property, plant and equipment purchases included in accounts payable	7,014	1,016
Deferred financing fees and acquisition costs included in accrued expenses and other current liabilities	371	2,691
Exchange of convertible subordinated notes	-	117,782
Shares isued in connection with a 2007 business acquisition	1,473	-
Cash paid during the period for:		
Interest	$ 4,575	$ 2,354
Income taxes	2,221	11,003
Acquisition of noncash assets and liabilities:		
Assets acquired	$ 163,040	$ 120,363
Liabilities assumed	56,407	15,294

GREATBATCH, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Unaudited

4. SHORT-TERM INVESTMENTS AVAILABLE FOR SALE

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

	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
June 27, 2008				
Corporate Bonds	$ 1,527	$ 31	$ -	$ 1,558
Total available for sale securities	$ 1,527	$ 31	$ -	$ 1,558
December 28, 2007				
Commercial Paper	$ 1,087	$ 5	$ -	$ 1,092
U.S. Government Agencies	1,469	4	-	1,473
Corporate Bonds	4,452	4	(4)	4,452
Total available for sale securities	$ 7,008	$ 13	$ (4)	$ 7,017

Short-term investments available-for-sale are carried at fair value with the unrealized gain or loss, net of tax, reported in accumulated other comprehensive income (loss) as a separate component of stockholders' equity. The fair value of short-term investments available for sale are based on Level 2 measurements as defined in the fair value hierarchy in SFAS No. 157 Fair Value Measurements - see Note 9.

5. INVENTORIES

Inventories are comprised of the following (in thousands):

	June 27, 2008	December 28, 2007
Raw materials	$ 39,907	$ 38,561
Work-in-process	32,618	19,603
Finished goods	21,113	13,718
Total	$ 93,638	$ 71,882

6. INTANGIBLE ASSETS

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

	Gross carrying amount	Accumulated amortization	Foreign currency translation	Net carrying amount
June 27, 2008				
Purchased technology and patents	$ 81,629	$ (32,425)	$ 821	$ 50,025
Customer relationships	46,103	(2,457)	1,151	44,797
Other	3,509	(1,891)	198	1,816
Total amortizing intangible assets	$ 131,241	$ (36,773)	$ 2,170	$ 96,638
December 28, 2007				
Purchased technology and patents	$ 69,813	$ (28,968)	$ -	$ 40,845
Customer relationships	29,983	(840)	-	29,143
Other	2,660	(1,380)	-	1,280
Total amortizing intangible assets	$ 102,456	$ (31,188)	$ -	$ 71,268

Aggregate amortization expense for the second quarter of 2008 and 2007 was $2.7 million and $1.1 million, respectively. Aggregate amortization expense for the six months ended June 27, 2008 and June 29, 2007 was $5.4 million and $2.0 million, respectively. As of June 27, 2008, annual amortization expense is estimated to be $5.4 million for the remainder of 2008, $10.1 million for 2009, $9.6 million for 2010, $9.5 million for 2011, $9.4 million for 2012 and $8.6 million for 2013.

The change in trademarks and tradenames during 2008 is as follows (in thousands):

Balance at December 28, 2007	$ 32,582
Acquired in 2008	2,163
Foreign currency translation	90
Balance at June 27, 2008	$ 34,835

The Company is currently performing a review of its market strategy to determine the best use of its “non-Greatbatch” tradenames, including those acquired with its recent acquisitions. The outcome of this review, which is expected to be completed by the end of 2008, may impact the useful life of the Company’s “non-Greatbatch” tradenames which had a value of $19.0 million as of June 27, 2008.

The change in goodwill during 2008 is as follows (in thousands):

	IMC	Electrochem	Total
Balance at December 28, 2007	$ 238,810	$ 9,730	$ 248,540
Goodwill recorded for 2007 acquisitions	(29)	213	184
Goodwill recorded for 2008 acquisitions	47,728	-	47,728
Foreign currency translation	2,382	-	2,382
Balance at June 27, 2008	$ 288,891	$ 9,943	$ 298,834

7. LONG-TERM DEBT

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

	June 27, 2008	December 28, 2007
Revolving line of credit	$ 114,000	$ -
3% Mortgage agreement, due 2008	2,000	-
Convertible subordinated notes		
2.25% convertible subordinated notes I, due 2013	52,218	52,218
2.25% convertible subordinated notes II, due 2013	197,782	197,782
Unamortized discount	(8,057)	(8,802)
Total convertible subordinated notes	241,943	241,198
Less current portion of long-term debt	(2,000)	-
Total long-term debt	$ 355,943	$ 241,198

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

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

In addition, the Credit Facility requires the Company to maintain a ratio of adjusted EBITDA, as defined in the credit agreement, to interest expense of at least 3.00 to 1.00, and a total leverage ratio, as defined in the credit agreement, of not greater than 5.00 to 1.00 from May 22, 2007 through September 29, 2009 and not greater than 4.50 to 1.00 from September 30, 2009 and thereafter.

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

In connection with the Company's acquisition of Precimed and the Chaumont Facility, the Company borrowed $117 million under its revolving line of credit in the first quarter of 2008. The Company repaid $3.0 million under the revolving line of credit during the second quarter of 2008. The weighted average interest rate on these borrowings as of June 27, 2008 was 5.0%, which resets based upon the six-month ($87 million), three-month ($15 million), two-month ($8 million) and one-month ($4 million) LIBOR rate. Based upon current capital needs in connection with the new Electrochem Solutions, Inc. ("Electrochem") facility as well as the expansion of the Company's corporate offices, management currently does not anticipate making significant principal payments on the revolving line of credit within the next twelve months. As of June 27, 2008, the Company had $121 million available under its revolving line of credit.

Interest Rate Swap – During the first quarter of 2008, the Company entered into an $80 million notional receive floating-pay fixed interest rate swap indexed to the six-month LIBOR rate that expires on July 7, 2010. The objective of this swap is to hedge against potential changes in cash flows on $80 million of the Company's revolving line of credit, which is indexed to the six-month LIBOR rate. No credit risk was hedged. The receive variable leg of the swap and the variable rate paid on the revolving line of credit bear the same rate of interest, excluding the credit spread, and reset and pay interest on the same dates. The Company intends to continue electing the six-month LIBOR as the benchmark interest rate on the debt. If the Company repays the debt it intends to replace the hedged item with similarly indexed forecast cash flows. The pay fixed leg of the swap bears an interest rate of 3.09%, which does not include the credit spread.

The Company accounts for this interest rate swap under SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities, as amended. SFAS No. 133 requires that all derivatives are recognized as either assets or liabilities in the condensed consolidated balance sheet at fair value. Changes in the fair value of the derivatives are recorded each period in current earnings or other comprehensive income, depending on whether the derivative is used in a qualifying hedge strategy and, if so, whether the hedge is a cash flow or fair value hedge. In order to qualify as a hedge, the Company must document the hedging strategy at its inception, including the nature of the risk being hedged and how the effectiveness of the hedge will be measured. The Company evaluates hedge effectiveness at inception and on an ongoing basis. If a derivative is no longer expected to be highly effective, hedge accounting is discontinued.

The Company designated the interest rate swap as a cash flow hedge. The Company recognizes the portion of the change in fair value of the interest rate swap that is considered effective as a direct charge or credit to accumulated other comprehensive income (a component of stockholders' equity), net of tax. The ineffective portion of the change in fair value, if any, is recorded to interest expense. Amounts recorded in accumulated other comprehensive income are periodically reclassified to interest expense to offset interest expense on the hedged portion of the revolving line of credit resulting from fluctuations in the six-month LIBOR interest rate. The fair value of the interest rate swap of $0.5 million as of June 27, 2008 is based on Level 2 measurements in the fair value hierarchy as described in SFAS No. 157 – see Note 9 and is recorded in other assets. As of June 27, 2008, a positive fair value adjustment of $0.3 million was recorded in accumulated other comprehensive income, net of income taxes of $0.2 million. The portion of the change in fair value of the interest rate swap during the first six months of 2008 that was considered ineffective amounted to $0.05 million. The amount recorded as an offset to interest expense during the first six months of 2008 related to the interest rate swap was $0.4 million.

Convertible Subordinated Notes - In May 2003, the Company completed a private placement of $170 million of 2.25% convertible subordinated notes, due 2013 (“CSN I”). In March 2007, the Company entered into separate, privately negotiated agreements to exchange $117.8 million of CSN I for an equivalent principal amount of a new series of 2.25% convertible subordinated notes due 2013 (“CSN II”) (collectively the “Exchange”) at a 5% discount. The primary purpose of the Exchange was to eliminate the June 15, 2010 call and put option that is included in the terms of CSN I. In connection with the Exchange, the Company issued an additional $80 million aggregate principal amount of CSN II at a price of $950 per $1,000 of principal.

The Exchange was accounted for as an extinguishment of debt and resulted in a pre-tax gain of $4.5 million ($2.9 million net of tax) or $0.13 per diluted share in the first quarter of 2007. As a result of the extinguishment, the Company had to recapture the tax interest expense that was previously deducted on the extinguished notes. This resulted in an additional current income tax liability of approximately $11.3 million, which was paid throughout 2007. This amount was previously recorded as a non-current deferred tax liability on the balance sheet. The following is a summary of the significant terms of CSN I and CSN II:

CSN I - The notes bear interest at 2.25% per annum, payable semi-annually. Holders may convert the notes into shares of the Company’s common stock at a conversion price of $40.29 per share, which is equivalent to a conversion ratio of 24.8219 shares per $1,000 of principal, subject to adjustment, before the close of business on June 15, 2013 only under the following circumstances: (1) during any fiscal quarter commencing after July 4, 2003, if the closing sale price of the Company’s common stock exceeds 120% of the $40.29 conversion price for at least 20 trading days in the 30 consecutive trading day period ending on the last trading day of the preceding fiscal quarter; (2) subject to certain exceptions, during the five business days after any five consecutive trading day period in which the trading price per $1,000 of principal for each day of such period was less than 98% of the product of the closing sale price of the Company’s common stock and the number of shares issuable upon conversion of $1,000 of principal; (3) if the notes have been called for redemption; or (4) upon the occurrence of certain corporate events.

Beginning June 20, 2010, the Company may redeem any of the notes at a redemption price of 100% of their principal amount, plus accrued interest. Note holders may require the Company to repurchase their notes on June 15, 2010 or at any time prior to their maturity following a fundamental change, as defined in the indenture agreement, at a repurchase price of 100% of their principal amount, plus accrued interest. The notes are subordinated in right of payment to all of our senior indebtedness and effectively subordinated to all debts and other liabilities of the Company’s subsidiaries.

Beginning with the six-month interest period commencing June 15, 2010, the Company will pay additional contingent interest during any six-month interest period if the trading price of the notes for each of the five trading days immediately preceding the first day of the interest period equals or exceeds 120% of the principal amount of the notes.

CSN II - The notes bear interest at 2.25% per annum, payable semi-annually. The holders may convert the notes into shares of the Company’s common stock at a conversion price of $34.70 per share, which is equivalent to a conversion ratio of 28.8219 shares per $1,000 of principal. The conversion price and the conversion ratio will adjust automatically upon certain changes to the Company’s capitalization.

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

Conversions in connection with corporate transactions that constitute a fundamental change require the Company to pay a premium make-whole amount whereby the conversion ratio on the notes may be increased by up to 8.2 shares per $1,000 of principal. The premium make-whole amount will be paid in shares of common stock upon any such conversion, subject to the net share settlement feature of the notes described below.

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

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

Beginning with the six-month interest period commencing June 15, 2012, the Company will pay additional contingent interest during any six-month interest period if the trading price of the notes for each of the five trading days immediately preceding the first day of the interest period equals or exceeds 120% of the principal amount of the notes.

Mortgage Agreement - In connection with the Precimed acquisition we assumed a mortgage agreement, with a former owner, that bears an interest rate of 3% and is due in September 2008. If the mortgage is not paid in full by that date the interest rate increases to 8%.

Deferred Financing Fees - The following is a reconciliation of deferred financing fees for the first six months of 2008, which are included in other assets (in thousands):

Balance at December 28, 2007	$	6,411
Financing costs deferred		14
Amortization during the period		(663)
Balance at June 27, 2008	$	5,762

8. PENSION PLANS

In connection with the Precimed and Chaumont Facility acquisitions, the Company recorded a pension liability related to defined benefit pension plans provided to non-U.S. employees of those businesses. Under these plans, benefits accrue to employees based upon years of service, position, age and compensation. The liability and corresponding expense related to these pension plans is based on actuarial computations of current and future benefits for employees. Pension expense is charged to current operating expenses. The accumulated benefit obligation, projected benefit obligation and fair value of plan assets as of the acquisition date, which was also the measurement date, were \$12.3 million, \$14.0 million and \$10.5 million, respectively.

The change in the net pension liability for the first six months of 2008 is as follows (in thousands):

Balance at December 28, 2007	$	-
Acquired in 2008		3,534
Net periodic pension cost		416
Foreign currency translation		296
Balance at June 27, 2008	$	4,246

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

		Six months ended June 27, 2008
Service cost	$	372
Interest cost		264
Expected return on plan assets		(220)
Net pension cost	$	416

The principal actuarial assumptions used were as follows:

Discount rate	3.9%
Expected rate of return on plan assets	4.0%
Salary growth	2.6%

The discount rate used is based on the yields of foreign government bonds plus 20 to 30 basis points to reflect the risk of investing in corporate bonds. The expected rate of return on plan assets reflects long-term earnings expectations on existing plan assets and those contributions expected to be received during the current plan year. In estimating that rate, appropriate consideration was given to historical returns earned by plan assets in the fund and the rates of return expected to be available for reinvestment. Rates of return were adjusted to reflect current capital market assumptions and changes in investment allocations. Equity securities and fixed income securities were assumed to earn a return in the range of 7% to 8% and 3% to 4%, respectively. The long-term inflation rate was estimated to be 1.8%. When these overall return expectations are applied to the pension plan's target allocation, the expected rate of return is determined to be 4.0%.

The weighted average asset allocation as of the valuation date was as follows:

Asset Category:	Target	Actual
Bonds	60%	52%
Equity	25%	32%
Other	15%	16%
	100%	100%

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

Estimated benefit payments over the next ten years are as follows (in thousands):

Remainder 2008	$	516
2009		1,040
2010		932
2011		1,002
2012		1,114
2013-2017		6,132

9. FAIR VALUE MEASUREMENTS

Beginning in fiscal year 2008, the Company adopted the provisions of SFAS No. 157, Fair Value Measurements, for all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value on a recurring basis (at least annually). Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date.

SFAS No. 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 — Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 — Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

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

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

Valuation Techniques
Short-term investments available for sale - The fair value of short-term investments available for sale is obtained from an independent pricing service that utilizes multidimensional relational models with observable market data inputs to estimate fair value. These observable market data inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data. The Company’s short-term investments available for sale are categorized in Level 2 of the fair value hierarchy.

Interest rate swap - The fair value of our interest rate swap is obtained from an independent pricing service that utilizes cash flow models with observable market data inputs to estimate fair value. These observable market data inputs include LIBOR and swap rates. The Company’s interest rate swap is categorized in Level 2 of the fair value hierarchy.

The following table provides information regarding financial assets and liabilities measured at fair value on a recurring basis (in thousands):

Description	At June 27, 2008	Fair value measurements at reporting date using Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Short-term investments available for sale	$ 1,558	$ -	$ 1,558	$ -
Interest rate swap	$ 546	$ -	$ 546	$ -

As of June 27, 2008, the Company did not have any nonfinancial assets and liabilities that are recognized or disclosed at fair value on a recurring basis.

10. STOCK-BASED COMPENSATION

Under SFAS No. 123(R) the Company records compensation costs related to all stock-based awards. Compensation costs related to share-based payments for the three and six months ended June 27, 2008 totaled $1.4 million, $0.9 million net of tax, or $0.04 per diluted share and $3.3 million, $2.2 million net of tax, or $0.10 per diluted share, respectively. This compares to $1.2 million, $0.8 million net of tax, or $0.03 per diluted share and $2.9 million, $1.9 million net of tax, or $0.08 per diluted share for the three and six months ended June 29, 2007, respectively.

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

	Number of stock options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Aggregate intrinsic value(1) (in millions)
Outstanding at December 28, 2007	1,744,022	$ 25.04		
Granted	438,611	20.08		
Exercised	(8,396)	17.97		
Forfeited or Expired	(69,641)	26.03		
Outstanding at June 27, 2008	2,104,596	$ 24.00	7.2	$ 0.2
Exercisable at June 27, 2008	1,043,107	$ 24.98	5.8	$ 0.2

(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 June 27, 2008 ($17.20) and the weighted average exercise price of the underlying options, multiplied by the number of options outstanding and/or exercisable.

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

	Six months ended June 27, 2008	Six months ended June 29, 2007
Weighted-average fair value	$ 7.93	$ 12.34
Risk-free interest rate	2.92%	4.62%
Expected volatility	40%	41%
Expected life (in years)	5.2	5.4
Expected dividend yield	0%	0%

The following table summarizes restricted stock and restricted stock unit activity related to the Company's plans:

	Activity	Weighted average fair value
Nonvested at December 28, 2007	282,134	$ 24.96
Shares granted	140,293	20.05
Shares vested	(94,221)	23.72
Shares forfeited	(3,021)	19.86
Nonvested at June 27, 2008	325,185	$ 23.25

11. OTHER OPERATING EXPENSES

Other operating expenses, net in the Company's Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) are comprised of the following (in thousands):

	Three months ended		Six months ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
(a) 2005 facility shutdowns and consolidations	$ 113	$ 1,560	$ 337	$ 3,249
(b) 2007& 2008 facility shutdowns and consolidations	909	145	1,629	282
(c) Integration costs	1,914	-	2,068	-
Asset dispositions and other	(55)	283	(125)	(10)
	$ 2,881	$ 1,988	$ 3,909	$ 3,521

(a) 2005 facility shutdowns and consolidations. In the first quarter of 2005, the Company announced its intent to close the Carson City, NV facility and consolidate the work performed at that facility into the Tijuana, Mexico facility. This consolidation project was completed in the third quarter of 2007.

In the fourth quarter of 2005, the Company announced its intent to close both the Columbia, MD facility ("Columbia Facility") and the Fremont, CA Advanced Research Laboratory ("ARL"). The Company also announced that the manufacturing operations at the Columbia Facility will be moved into the Tijuana Facility and that the research, development and engineering and product development functions at the Columbia Facility and at ARL will relocate to the Technology Center in Clarence, NY. The ARL move and closure portion of this consolidation project was completed in the fourth quarter of 2006. The Company ceased operations at the Columbia Facility in June 2008 and the closure is substantially complete.

The total cost for these facility consolidations were approximately $18.7 million of which $18.4 million has been incurred through June 27, 2008. The major categories of costs include the following:

a. Severance and retention - $7.2 million;

b. Production inefficiencies and revalidation - $1.5 million;
c. Accelerated depreciation and asset write-offs - $1.1 million;
d. Personnel - $6.8 million; and
e. Other - $2.1 million.

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All categories of costs are considered to be cash expenditures, except accelerated depreciation and asset write-offs. The expenses for the facility shutdowns and consolidations are included in the IMC business segment.

Accrued liabilities related to the 2005 facility shutdowns and consolidations are comprised of the following (in thousands):

	Severance and retention	Production inefficiencies and revalidation	Accelerated depreciation / asset write-offs	Personnel	Other	Total
Balance, December 29, 2006	$ 2,904	$ -				