GREATBATCH, INC.
Form 10-K
March 01, 2016

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

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FORM 10-K

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ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For The Fiscal Year Ended January 1, 2016
Commission File Number 1-16137

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

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

2595 Dallas Parkway
Suite 310
Frisco, Texas 75034
(Address of principal executive offices)
(716) 759-5600
(Registrant's telephone number, including area code)
Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class:	Name of Each Exchange on Which Registered:
Common Stock, Par Value $0.001 Per Share	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and

post such files). Yes x No ¨

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

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

The aggregate market value of common stock held by non-affiliates as of July 3, 2015 (the last business day of the registrant's most recently completed second fiscal quarter), based on the last sale price of $53.50, as reported on the New York Stock Exchange on that date: $1,342 million. Solely for the purpose of this calculation, shares held by directors and officers and 10 percent shareholders of the registrant have been excluded. This exclusion should not be deemed a determination or an admission that these individuals are, in fact, affiliates of the registrant.

Shares of common stock outstanding as of March 1, 2016: 30,778,835

DOCUMENTS INCORPORATED BY REFERENCE

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

Document	Part
Proxy Statement for the 2016 Annual Meeting of Stockholders	Part III, Item 10 "Directors, Executive Officers and Corporate Governance"
	Part III, Item 11 "Executive Compensation"
	Part III, Item 12 "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters"
	Part III, Item 13 "Certain Relationships and Related Transactions, and Director Independence"
	Part III, Item 14 "Principal Accountant Fees and Services"

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PART I

ITEM 1. BUSINESS

OVERVIEW

Greatbatch, Inc. manufactures and develops high-quality medical devices and components primarily for large original equipment manufacturers (“OEMs”), which depend on us to design, develop and produce reliable, long-lasting, intellectual property protected medical device technologies. During the fourth quarter of 2015, Greatbatch, Inc. acquired all of the outstanding common stock of Lake Region Medical Holdings, Inc. (“Lake Region Medical”) creating one of the largest medical device outsource (“MDO”) manufacturers in the world serving the cardiac, neuromodulation, orthopaedics, cardio and vascular, advanced surgical, portable medical, energy, environmental and military markets. Simultaneous with the close of the Lake Region Medical acquisition, Greatbatch, Inc. also announced its intention to rename the combined entity Integer Holdings Corporation. Integer is defined as complete, whole, and comprehensive, and represents the joining of Greatbatch, Inc. and Lake Region Medical as well as the combined company's product and service offerings provided to customers. The new name is subject to Greatbatch shareholder approval at the May 2016 annual meeting. When used in this report, the terms “Greatbatch,” “we,” “us,” “our” and the “Company” mean Greatbatch Inc. and its subsidiaries.

During 2015, we also announced a spin-off of a portion of our QiG reporting segment through a tax-free distribution of our QiG Group LLC subsidiary (“QiG Group”) to the stockholders of Greatbatch on a pro rata basis (the “Spin-off”). Immediately prior to completion of the Spin-off, QiG Group will be converted into a corporation organized under the laws of Delaware and change its name to Nuvectra Corporation (“Nuvectra”). In February 2016, the Board of Directors of Greatbatch approved the Spin-off with a distribution ratio whereby Greatbatch stockholders will receive one share of Nuvectra common stock for every three shares of Greatbatch common stock held. The Spin-off is expected to be completed in March 2016. As a result of the Lake Region Medical acquisition and pending Spin-off, the Company is reevaluating its operating and reporting segments, which is expected to be finalized in 2016 once the corporate and management reporting structure realignment is completed. As of the end of our 2015 fiscal year, we operate our business in three segments – Greatbatch Medical, QiG and Lake Region Medical.

The Greatbatch Medical segment designs and manufactures products where Greatbatch either owns or licenses the intellectual property or has unique manufacturing and assembly expertise, primarily for the cardiac, neuromodulation, orthopaedic, portable medical, vascular, energy, environmental and military markets. The Greatbatch Medical segment also offers value-added assembly and design engineering services for medical devices using, in many cases, our proprietary technologies.

The QiG segment focuses on the design and development of medical device systems and components through a network of research and development professionals who drive a diverse portfolio of new and innovative medical product opportunities. QiG seeks to assist customers in accelerating the velocity of innovation while delivering an optimized supply chain and critical cost efficiencies. QiG’s neurostimulation technology platform, which will be owned by Nuvectra after the completion of the Spin-off, has the capability to provide treatment to patients in several established neurostimulation markets such as spinal cord stimulation (“SCS”), sacral nerve stimulation (“SNS”), deep brain stimulation (“DBS”), and other emerging neurostimulation markets. The QiG segment is comprised of QiG Group, NeuroNexus Technologies, Inc. (“NeuroNexus”), and Centro de Construcción de Cardioestimuladores del Uruguay (“CCC”). The entities included in the pending Spin-off consist of QiG Group and its subsidiaries Algostim LLC (“Algostim”) and PelviStim, LLC (“PelviStim”) and NeuroNexus. As an independent publicly traded company after the completion of the Spin-off, Nuvectra will be focused on the development and commercialization of its neurostimulation technology platform and, in particular, its Algovita® SCS system for the treatment of chronic pain of the trunk and limbs (“Algovita”). The operations of CCC and certain other existing QiG research and development capabilities will be retained by Greatbatch and are not included as part of the Spin-off.

Lake Region Medical has operated as a segment for Greatbatch since it was acquired during the fourth quarter of 2015. This segment specializes in the design, development, and manufacturing of products across the medical component and device spectrum, primarily serving the cardio, vascular and advanced surgical markets. Lake Region

Medical offers fully integrated outsourced manufacturing, regulatory and engineering services, contract manufacturing, finished device assembly services, original device development, and supply chain management to its customers, who are located worldwide. This segment is dedicated to providing our customers with reliable, high-quality, cost-efficient, integrated outsourced solutions in the medical device space.

Since formation, Greatbatch has completed the following acquisitions either directly or indirectly through one of its subsidiaries:

Acquisition Date	Acquired Company	Business at Time of Acquisition
July 1997	Wilson Greatbatch Ltd.	Founded in 1970, designed and manufactured batteries for implantable medical and commercial applications.
August 1998	Hittman Materials and Medical Components, Inc.	Founded in 1962, designed and manufactured ceramic and glass feedthroughs and specialized porous coatings for electrodes used in implantable medical devices (“IMDs”).
August 2000	Battery Engineering, Inc.	Founded in 1983, designed and manufactured high-energy density batteries for industrial, commercial, military and medical applications.
June 2001	Sierra-KD Components division of Maxwell Technologies, Inc.	Founded in 1986, designed and manufactured ceramic electromagnetic filtering capacitors and integrated them with wire feedthroughs for use in IMDs as well as military, aerospace and commercial applications.
July 2002	Globe Tool and Manufacturing Company, Inc.	Founded in 1954, designed and manufactured precision enclosures used in IMDs and commercial products used in the aerospace, electronics and automotive sectors.
March 2004	NanoGram Devices Corporation	Founded in 1996, developed nanoscale materials for battery and medical device applications.
April 2007	BIOMEC, Inc.	Established in 1998, provided medical device design and component integration to early-stage and established customers.
June 2007	Enpath Medical, Inc.	Founded in 1981, designed, developed, and manufactured venous introducers and dilators, implantable leadwires, steerable sheaths and steerable catheters.
October 2007	IntelliSensing LLC	Founded in 2005, designed and manufactured battery-powered wireless sensing solutions for commercial applications.
November 2007	Quan Emerteq LLC	Founded in 1998, designed, developed, and manufactured catheters, stimulation leadwires, microcomponents and assemblies.

November 2007	Engineered Assemblies Corporation	Founded in 1984, designed and integrated custom battery solutions and electronics focused on rechargeable systems for industrial, commercial, military and portable medical applications.
January 2008	P Medical Holding SA	Founded in 1994, designed, manufactured and supplied delivery systems, instruments and implants for the orthopaedics industry.
February 2008	DePuy Orthopaedics' Chaumont, France manufacturing facility	Manufactured hip and shoulder implants for DePuy Orthopaedics.
December 2011	Micro Power Electronics, Inc. ("Micro Power")	Founded in 1990, designed custom battery packs, smart chargers and power supplies for industrial, military and portable medical applications.
February 2012	NeuroNexus	Founded in 2004, medical device design firm specializing in developing neural interface technology, components and systems.

Acquisition Date	Acquired Company	Business at Time of Acquisition
August 2014	CCC	Founded in 1969, an active implantable neuromodulation medical device systems developer and manufacturer that produces a range of medical devices including implantable pulse generators, programmer systems, battery chargers, patient wands and leads.
October 2015	Lake Region Medical	Founded in the 1940s, offers fully integrated outsourced manufacturing, regulatory and engineering services, contract manufacturing, finished device assembly services, original device development, and supply chain management within the cardio, vascular and advanced surgical markets.

FINANCIAL STATEMENT YEAR END

We utilize a fifty-two, fifty-three week fiscal year ending on the Friday nearest December 31. Fiscal years 2015, 2014 and 2013 ended on January 1, 2016, January 2, 2015, and January 3, 2014, respectively. Fiscal year 2015 and 2014 contained fifty-two weeks and fiscal year 2013 contained fifty-three weeks.

SEGMENT INFORMATION

We operate our Company in three reportable segments: Greatbatch Medical, QiG, and Lake Region Medical. Segment information including sales from external customers, profit or loss, and assets by segment as well as sales from external customers and long-lived assets by geographic area are set forth in Note 19 “Business Segment, Geographic and Concentration Risk Information” of the Notes to Consolidated Financial Statements contained in Item 8 of this report. As a result of the Lake Region Medical acquisition and the pending Spin-off, we are reevaluating our operating and reporting segments, which is expected to be finalized in 2016 once our corporate and management reporting structure realignment is completed.

Greatbatch Medical

Greatbatch Medical’s products include medical devices and components for the cardiac, neuromodulation, orthopaedics, vascular, portable medical, and energy markets among others. A brief description of these products and markets follows.

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

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

Device	Principal Illness or Symptom
Pacemakers	Abnormally slow heartbeat (Bradycardia)
ICDs	Rapid and irregular heartbeat (Tachycardia)
CRT/CRT-Ds	Congestive heart failure
Neurostimulators	Chronic pain, incontinence, movement disorders, epilepsy, obesity or depression

Cochlear hearing devices	Hearing loss

IMD systems generally include an implantable pulse generator (“IPG”) and one or more stimulation leads. An IPG is a battery powered device that produces electrical pulses. The lead then carries this electrical pulse from the IPG to the heart, spinal cord or other location in the body. Our portfolio of proprietary technologies, products, and capabilities has been built to provide our cardiac and neuromodulation customers with a single source for the vast majority of the components and subassemblies required to manufacture an IPG or lead, including complete lead systems. Our investments in research and development has generated proprietary products such as the QHR®, QMR®, and QCAPS™ primary battery and capacitor lines, which have enabled

our OEM partners to make improvements in their system offerings in terms of device reliability, size, longevity and power. Our Xcellion™ line of Lithium-Ion rechargeable batteries leverages decades of implantable battery research, development and manufacturing expertise. This line of battery cells now includes the optional CoreGuard™ feature, which enables batteries to discharge to zero volts without performance degradation.

We believe that the cardiac and neuromodulation markets continue to exhibit fundamentals for growth. Factors that are impacting these markets are as follows:

- Growing patient population – Implantable pacemakers and ICDs remain primary therapies for a number of critical clinical conditions, most of which are non-elective in nature. As the prevalence of many of these clinical conditions increase with age, underlying population demographics in developed countries will provide an engine for procedure growth.
- Focus on emerging markets – OEMs have increased their focus and investment to expand physicians' awareness of these life changing therapies, which we believe will result in increased utilization to improve quality of life for more patients globally. These growth initiatives will drive increased utilization of existing cardiac technologies and provide an avenue for new device and technology development as device manufacturers look to develop unique products for these markets.
- Trends in device features – IMD evolution continues to favor the development of smaller, longer lasting devices with increased functionality and more physiologic shapes. Innovative battery, capacitor, enclosure, and filtering solutions such as those provided by Greatbatch Medical are critical to the realization of these market needs.
- Growth within neuromodulation – Neuromodulation applications continue to grow at a faster pace than traditional markets, and are expected to continue to expand as new therapeutic applications are identified. There continues to be growth in clinical data supporting new applications and a growing focus and excitement from clinicians looking for treatment alternatives for challenging patient conditions that have not been traditionally served by implantable stimulation devices. As many cardiac OEM companies also operate as OEMs in the neuromodulation market, we believe Greatbatch is well positioned to capitalize on these drivers of market growth based on the strength of our existing relationships. Additionally, early stage neuromodulation OEMs have begun to receive CE mark and FDA approvals for their novel device systems and therapies, further fueling incremental growth in the market and providing new potential partners for Greatbatch technologies.
- Innovative and disruptive technologies – Three innovative and disruptive device technologies (sub-cutaneous ICDs, leadless pacemakers and injectable loop recorders) continued to receive significant attention from OEMs. These new device technologies will play an important role in increasing utilization of critical therapy and diagnostic tools globally. Our portfolio of technologies and next generation development efforts are vital to the advancement of these new therapy and diagnostic platforms.

Orthopaedics – Products include hip and shoulder joint reconstruction implants, plates, screws and spinal devices, as well as instruments and delivery systems used in hip and knee replacement, trauma fixation, extremity and spine surgeries. Orthopaedic implants are used in reconstructive surgeries to replace or repair hips, knees and other joints, such as shoulders, ankles and elbows that have deteriorated as a result of disease or injury. Trauma implant systems are used primarily to reattach or stabilize damaged bone or tissue while the body heals. Spinal implant systems are used by orthopaedic surgeons and neurosurgeons in the treatment of degenerative diseases, deformities and injuries in various regions of the spine.

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

Many of the factors affecting the orthopaedics market are similar to the cardiac and neuromodulation markets and include:

- Aging population in developed markets – Conditions like osteoarthritis and spine degeneration are underlying drivers of a diverse spectrum of reconstructive therapies, and increase significantly with age. Continued growth in the 65+ population, along with an increased desire to remain active, will provide a driver for procedural growth.
- Rates of obesity – Rates of obesity globally have continued to rise, and are expected to do so for the foreseeable future. Excess weight exacerbates wear on joints and will drive the need for replacement and revision procedures.
- New implant and surgical technology – The orthopaedic market continues to see a growing focus on minimally invasive procedures across a number of sectors including joint reconstruction and spinal fusion, potentially expanding the use of these therapeutic approaches.

- Growth in emerging markets – Growing affluence in emerging markets has provided an opportunity for global growth of a number of orthopaedic procedures. Patient populations outside of developed markets continue to be underpenetrated, and investment from large OEMs in these markets will provide for growth in the number of procedures of established therapies that are completed.

Vascular – Products include off-the-shelf introducers, steerable sheaths, and components for high performance specialty catheters that deliver minimally invasive therapies to treat disease states such as coronary, neurovascular and peripheral vascular disease. Our customers include market leading OEMs within the interventional radiology, interventional cardiology, electrophysiology and vascular access market. We believe that over the coming years these markets will experience strong global procedural growth driven by:

- Growing global prevalence of vascular disease, reflecting both an aging population in many developed markets and the continuing growth in the number of people with conditions such as diabetes, hypertension and obesity;
- Continued adoption of minimally invasive therapies in emerging markets; and
- Emergence of new minimally invasive therapies expanding patient pools to include patients who previously would have remained either untreated or have undergone surgery.

Our products and capabilities seek to capitalize on the growth of the minimally invasive therapy markets by offering off-the-shelf access devices such as introducers and steerable sheaths as well as design and manufacturing services for specialty catheter components that enable the delivery and administration of predominantly cardiovascular, neurovascular and endovascular therapies. Our broad portfolio of peelable, valved and non-valved introducers have gained strong adoption with OEMs in both the cardiac rhythm management (“CRM”) market, for the placement of leads, as well as the vascular access space where our introducers are used to place dialysis catheters, PICCs, CVCs and ports. We service these markets by providing OEMs with customizable sterile kits or non-sterile product for inclusion in OEMs device kits. Our steerable sheaths have gained significant traction in the electrophysiology market where market-leading OEMs utilize our steerable devices for the delivery of diagnostic and ablation devices. Our specialty catheter shaft components provide OEMs with custom design, prototyping, and manufacturing of the high performance catheter assemblies required to support the most demanding minimally invasive catheter-based surgical procedures.

Portable Medical, Energy, Military and Environmental – Greatbatch Medical also provides customized battery power and management systems, charging and docking stations, and power supplies. We design customized primary (non-rechargeable) and secondary (rechargeable) battery solutions, which are used in the portable medical, energy, military and environmental markets. Our primary and secondary power solutions are used where failure is not an option.

Greatbatch Medical’s primary lithium power solutions, which include high, moderate and low rate non-rechargeable cell solutions, are utilized in extreme conditions and can withstand exceptionally high and low temperatures, sterilization, and high shock and vibration. Our product designs incorporate protective circuitry, glass-to-metal hermetic seals, fuses and diodes to help ensure safe, durable and reliable power as devices are subjected to these harsh conditions. Our primary batteries are often used in remote and demanding environments, including down hole drilling tools, military communication devices and oceanographic buoys.

In addition to primary power solutions, Greatbatch Medical offers customized secondary or rechargeable battery packs, in a diverse range of chemistries for critical applications requiring rechargeable solutions. Rechargeable chemistries include lithium ion, lithium ion polymer, nickel metal hydride, nickel cadmium, lithium iron phosphate and sealed lead acid. Greatbatch Medical’s rechargeable battery packs include advanced electronics, smart charging and battery management systems and are used in critical and life-saving applications, including automated external defibrillators, ventilators, powered surgical instruments and portable oxygen concentrators, among others.

The portable medical market trends continue to be favorable with an aging population and the shift from clinical to home settings for portable equipment to monitor and provide therapy. This market represents a strong opportunity despite cost pressure from healthcare reform.

The following table summarizes information about our Greatbatch Medical products:

Product	Description	Principal Product Attributes

Batteries	Lithium iodine (“Li Iodine”) Lithium silver vanadium oxide (“Li SVO”) Lithium carbon monoflouride (“Li CFx”) Lithium ion rechargeable (“Li Ion”) Lithium SVO/CFx (“QHR” & “QMR”)	High reliability and predictability; Long service life; Customized configuration; Light weight; High energy density, small size

Product	Description	Principal Product Attributes
Capacitors	Storage for energy generated by a battery before delivery to the heart. Used in ICDs and CRT-Ds.	Stores more energy per unit volume (energy density) than other existing technologies; Customized configuration
EMI filters	Filters electromagnetic interference to limit undesirable response, malfunctioning or degradation in the performance of electronic equipment	High reliability attenuation of EMI RF over wide frequency ranges; Customized design
Feedthroughs	Allow electrical signals to be brought from inside hermetically sealed IMD to an electrode	Ceramic to metal seal is substantially more durable than traditional seals; Multifunctional
Coated electrodes	Deliver electric signal from the feedthrough to a body part undergoing stimulation	High quality coated surface; Flexible in utilizing any combination of biocompatible coating surfaces; Customized offering of surfaces and tips
Precision components	Machined Molded and over molded products	High level of manufacturing precision; Broad manufacturing flexibility
Enclosures and related components	Titanium Stainless steel	Precision manufacturing, flexibility in configurations and materials
Value-added assemblies	Combination of multiple components in a single package/unit	Leveraging products and capabilities to provide subassemblies and assemblies; Provides synergies in component technology and procurement systems
Stimulation leads	Cardiac, neuromodulation and hearing restoration stimulation leads	Custom and unique configurations that increase therapy effectiveness, provide finished device design and manufacturing
Introducers	Conduit to deliver CRM leads or placement of dialysis catheters, CVCs, PICCs, and ports	Variety of sizes and configurations that facilitate reliable access in vascular access and CRM applications
Steerable sheaths	Steerable guide sheath for the delivery of diagnostic and ablation catheters	Configurations to enable effective delivery of diagnostic and therapeutic devices in electrophysiology procedures.
Specialty catheter shaft components	High performance catheter shafts designed to meet intended clinical performance characteristics	Deep catheter design expertise and state-of-the-art manufacturing services
Cases and trays	Delivery systems for cleaning and sterilizing orthopaedic instruments and implants	High degree of customization; Short, predictable development and

		production timelines
Implants	Orthopaedic implants for large joint, spine, extremity and trauma procedures	Precision manufacturing, leveraging capabilities and product processes including sterile packaging and coatings

Product	Description	Principal Product Attributes
Instruments	Reusable and single use orthopaedic instruments for large joint, spine, extremity and trauma procedures	Designed to improve surgical techniques, reduce surgery time, and increase surgical precision
Manufactured primary cells	Low-rate Moderate-rate High rate (spiral)	Optimized rate capability, shock and vibration resistant, high and low temperature tolerant, high energy density; Ability to operate in low and high temp applications
Assembled primary and secondary battery packs	Highly-customized pack solutions	Diverse portfolio of cells in various sizes, temperature ranges and rate capabilities, custom-engineered and designed, value-add charging and battery management systems for secondary packs

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

QiG

The QiG segment was initially created in 2008 to facilitate and focus on the research and development of complete medical devices or components. Through the acquisition of CCC and other strategic equity investments made by our Company, QiG has established relationships with multiple emerging companies. In addition, QiG has established relationships with physicians across the U.S. and Europe that operate in highly specialized fields, who help to support the design of medical device systems with unique benefits to improve clinical outcomes. QiG seeks to assist customers in accelerating the velocity of innovation while delivering an optimized supply chain and critical cost efficiencies. We are utilizing our market research to drive our intellectual property portfolio with a goal of improved return on investment.

During 2015, Greatbatch announced the Spin-off of a portion of its QiG reporting segment through a tax-free distribution of its QiG Group subsidiary to the stockholders of Greatbatch on a pro rata basis. The entities included in the pending Spin-off of Nuvectra consist of QiG Group, Algostim, PelviStim and NeuroNexus. As an independent publicly traded company after the completion of the Spin-off, Nuvectra will initially be focused on the development and commercialization of its neurostimulation technology platform and, in particular, Algovita for the treatment of chronic pain of the trunk and limbs. In February 2016, the Board of Directors of Greatbatch approved the Spin-off with a distribution ratio whereby Greatbatch stockholders will receive one share of Nuvectra common stock for every three shares of Greatbatch common stock held. The Spin-off is expected to be completed in March 2016. After the completion of the Spin-off, CCC and other existing research and development capabilities will remain with this segment until we complete our reevaluation of our operating and reporting segments in 2016.

As a result of our investments in QiG, we can develop or assist our customers to develop complete medical devices, as highlighted by our successful development of Algovita for the treatment of chronic pain of the trunk and limbs, which received approval from the United States Food and Drug Administration (“FDA”) during 2015. Although as previously noted Algovita will be owned by Nuvectra after the completion of the Spin-off, using the retained operations of CCC and certain other existing research and development capabilities of Greatbatch and Lake Region Medical, we will continue to assist customers with design service and regulatory submissions, as well as manufacturing and distribution services. The medical devices that we can design and develop are full product solutions that utilize the medical technology expertise and capabilities residing within Greatbatch Medical. The benefits to our OEM customers of using our design and development services include shortening the time to market for these medical devices,

optimizing their supply chain and, ultimately, providing them with cost efficiencies. In connection with the completion of the pending Spin-off, we will enter into a five year supply agreement with Nuvectra pursuant to which Greatbatch Medical will manufacture and supply fully assembled Algovita systems and most of the products, parts and components necessary for the production and assembly of Algovita. Additionally, in connection with the completion of the Spin-off, we will enter into an agreement with Nuvectra that provides us with the exclusive right to supply Nuvectra with products, parts and components necessary for production of future SNS or DBS medical devices that Nuvectra may seek to commercialize for a period of five years after regulatory approval.

Acquired in 2014, CCC has expertise in developing and manufacturing active implantable medical devices. CCC has designed and produced a wide range of devices for some of the world's leading medical device companies, including implantable pulse generators, programmer systems, battery chargers, patient wands and leads. CCC has the capability to assist customers in the

design, development and commercialization of full product medical device solutions, including complete medical device systems. Specifically, CCC has the capability to design the electronics, firmware and mechanics, of implantable and non-implantable devices, to develop application software and custom leads, and to provide services of prototyping, encapsulation and OEM manufacturing. CCC strives to provide on time, safe and effective products and services at competitive pricing, while maintaining a culture of continuous improvement in compliance with the established standards and regulations. After the pending Spin-off is completed, our design and development of complete medical device systems will be completed by our combined teams in Greatbatch Medical, Lake Region Medical, and CCC. As a result, we are now able to more broadly partner with medical device companies, leveraging Greatbatch Medical's core components discrete technology, the design and manufacturing expertise of Lake Region Medical, and the full device capabilities of CCC which will enhance our medical device innovation efforts.

QiG utilizes a disciplined and diversified portfolio approach with three investment modes: new medical device systems commercialization, collaborative programs with OEM customers and strategic equity positions in emerging healthcare companies. A scorecard process is utilized to review and select the most strategically valuable ideas to pursue, taking into account a host of variables including the market opportunity, regulatory pathway and reimbursement, market need and market potential, intellectual property and projected financial return.

QiG's revenue includes a limited release of Algovita in Europe, as well as various medical device products such as implantable pulse generators, programmer systems, battery chargers, patient wands and leads to medical device companies residing primarily in the cardiac and neuromodulation market as well as sales of neural interface technology, components, and systems to the neuroscience and clinical markets.

Lake Region Medical

Lake Region Medical operates within the cardio, vascular and advanced surgical markets. A brief description of these products and markets are as follows:

Cardio and Vascular - Within the cardio and vascular markets, Lake Region Medical concentrates on the design and manufacturing of guidewires, catheters, vascular access products, and CRM and stimulation therapy components, subassemblies and finished devices. Lake Region Medical operates across the product continuum from basic manufacturing of single components to contract device manufacturing services to the design and production of its own products.

The following provides an overview of the main product lines within the cardio and vascular market:

- Vascular Access - The vascular access product lines include components and devices used primarily in catheter-based interventional vascular devices. Utilizing proprietary platform technologies and advanced wire processing technologies, Lake Region Medical manufactures high-precision guidewires that meet the fitness of use, criticality, and safety parameters required by the medical device industry. Additionally, Lake Region Medical manufactures vascular closure devices that provide rapid and reliable hemostasis to puncture sites. The full product line for the vascular access sub-segment includes access guidewires, introducer sheaths and dilators, central venous catheters, implantable ports, hemodialysis catheters, electrical and optical mechanical devices, catheter components, subassemblies, and complete devices.
- Cardiovascular and Structural Heart - The cardiovascular and structural heart product lines include products used for vascular, cardiac surgery and structural heart disease. Within this product line, Lake Region Medical produces guidewire and catheter components, subassemblies and completed devices for cardiovascular, cardiac surgery and structural heart disease applications. For vascular procedures, product applications include guidewires, guide catheters, microcatheters, ultrasound catheters, and delivery systems, balloon expandable delivery systems, stents, atherectomy devices, embolic protection devices, catheter design and assembly, sterile packaging, catheter shafts, radiopaque marker bands, molded hubs, fabricated hypotube assembly, and wire stent frames. For cardiac surgery and structural heart disease procedures, product applications are comprised of access and delivery systems for patient foramen ovale closure devices, vessel harvesting systems, beating heart surgery systems, transcatheter heart valves, heart valves and leaflets, and anastomosis devices.
- Peripheral Vascular, Neurovascular, Urology, and Oncology - This product line is primarily focused on the design and manufacturing of devices used during the treatment of peripheral arterial disease, peripheral transcatheter

embolization and occlusion, aortic aneurysm repair, arteriovenous malformations and endoscopic retrograde cholangiopancreatography. Within this product line, Lake Region Medical produces guidewire and catheter components, subassemblies and completed devices for the various applications.

The primary neurovascular applications for these products are cerebrovascular aneurysms, while the urology and oncology applications are stone retrieval, thermal tumor ablation, transarterial chemoembolization and radio frequency probes. Lake Region Medical products within this area include peripheral vascular and urology guidewires, neurovascular and oncology micro-guidewires, angiographic and diagnostic guidewires, guiding catheters, support and crossing catheters, embolic protection devices, micro-catheters, and delivery systems.

- Electrophysiology and Stimulation Therapy - The electrophysiology and stimulation therapy product lines includes devices that are used in the electrophysiology ablation catheter and cardiac rhythm systems. Within this product line, Lake Region Medical produces guidewire and catheter components, subassemblies and completed devices for the various electrophysiology applications as well as components and assemblies for cardiac and neurostimulation leads and IPGs.

Electrophysiology atrial fibrillation ablation catheters, which deliver therapy to the heart and eliminate tissue paths for irregular electrical impulses, and electrophysiology catheters, which diagnose irregular electrical impulses in the heart's electrical system, are the focal points of Lake Region Medical's electrophysiology offering. In the stimulation therapy applications, CRM devices such as pacemakers, implantable cardioverter defibrillator, cardiac leads and neurostimulation devices for spinal cord and deep brain stimulation are the primary applications of focus.

Advanced Surgical - Lake Region Medical provides supply chain solutions that support the development and manufacturing of complex components, sub-assemblies, and finished devices for a range of surgical technologies to the advanced surgical market. Portions of this market include endoscopy, laparoscopy, arthroscopy, orthopaedics, spinal, women's health and drug delivery.

The following provides an overview of the main product lines within the advanced surgical market:

- Laparoscopy and General Surgery - This portion of the market includes devices used primarily for minimally invasive procedures in the abdominal space, but may also be used in open or general surgery. Customers of Lake Region Medical's laparoscopy and general surgery products require energy-based devices and endomechanical devices that are efficient and reliable. Lake Region Medical's product line includes trocars, endoscopes and laparoscopes, closure devices, harmonic scalpels, bipolar energy delivery devices, radio frequency probes, thermal tumor ablation devices and ophthalmic surgery devices.
- Biopsy and Drug Delivery - Biopsy and drug delivery products include minimally invasive biopsy devices used to retrieve tissue samples and for delivery of drug therapy. Lake Region Medical's biopsy and drug delivery product line includes biopsy and grasping forceps, breast biopsy devices, auto injection systems, cannula-based delivery systems, implantable brachytherapy seeds, tubes, catheters, infusion and IV connectors, and wearable patient constant or variable delivery systems.
- Joint Preservation and Reconstruction - This portion of the market includes orthopaedic implants and fixation devices, including their related surgical instruments used in large joint, extremities, trauma, spine and craniomaxillofacial applications. Lake Region Medical manufactures a variety of reconstructive implants, components, and instruments used in joint preservation and reconstruction. Lake Region Medical's implant products include hip stems and sleeves, knee implant components, extremity devices, long bone nails and screws, tissue anchor and fixation devices. Instrument products include knee instruments, minimally invasive surgery and computer assisted surgery instruments, cutting blocks, measuring and sizing instruments, impactors and hip instruments; stem inserters, anatomical broach handles and cup holders.
- Arthroscopy - This portion of the market includes devices used for minimally invasive surgery in a joint space, also referred to as "sports medicine." Lake Region Medical's products includes shaver blades and burrs, ablation probes, and suture anchors, which are used in procedures such as arthroscopic ACL reconstruction arthroscopic repair, rotator cuff repair, and hip labrum repair.
- Engineered Tubing Solutions - Lake Region Medical's engineered tubing solutions business is a comprehensive supply chain solution suite for precision metal tubing manufacturing and fabrication. Lake Region Medical offers a fully integrated precision tubing business, which encompasses design, manufacturing and supply chain management. Lake Region Medical's precision tubing products are primarily used in the medical, aerospace, automotive, chromatography, defense, oil and gas, power generation, and sensor and temperature control markets.

The following table summarizes information about our Lake Region Medical products:

Product	Description	Principal Product Attributes
Access and infusion therapy guidewires	Guidewires for vascular access and placement of dialysis catheters, central venous catheters, peripherally inserted central catheters and implantable ports	Wide variety of custom and standard configurations available in both full-length coil and mandrel wire designs
Angiographic guidewires	Guidewires for delivery of angiography and guide catheters	Polytetrafluoroethylene (“PTFE”) pre-coated guidewires available in a wide variety of custom & standard configurations
Introducer sheaths and dilators	Facilitate subcutaneous access and delivery of a variety of diagnostic and interventional devices	Generally consist of a kit that includes a guidewire, sheath, dilator, and needle Size, configuration & coating depend on the clinical and anatomical requirements
Interventional guidewires	Facilitate access and delivery of diagnostic and therapeutic catheter-based devices across a wide range of interventional procedures	Advanced core, coatings & distal tips designs based on procedure and application specific needs
Structural heart guidewires	Pre-curved guidewires used in a variety of transcatheter approaches for treating structural heart disease	Range of stiffness profiles, tip shape configurations and transition zones to fit procedural and safety needs
Steerable sheaths	Used to gain access and deliver therapeutic devices to the inner chambers of the heart; primarily diagnostic catheters, ablation catheters and structural heart therapies	Diverse range of configurations designed to achieve accurate positioning and deliver devices during electrophysiology and structural heart procedures
Embolic protection devices	Baskets and filters employed to protect distal arteries from embolization during angioplasty, stenting, and atherectomy procedures that can cause emboli to lodge in smaller arteries leading to reduced or loss of blood flow	Range of basket designs, pore sizes and construction materials for capturing emboli in different parts of the body
Delivery systems	Guidewires, catheters, and sub-assemblies used to deploy therapies, including coil pushers that deploy embolization coils; stent delivery wires and catheters used to place stents; and embolic protection delivery and retrieval systems	Broad range of custom wire and catheter-based systems incorporating different stiffness profiles, tip shapes, and lengths to fit procedural and safety needs
Microcatheters	Catheters with small inner lumens used to deliver embolization therapies	Range of catheters with differing lengths, stiffness profiles, and small lumen diameters

	including coils, particles, glues, and other embolization products during cancer, peripheral and neurovascular procedures where occluding blood flow is desired	
Electrical and optical devices	Guidewire and catheter-based devices that provide diagnostic information (e.g. arterial pressure, imaging) when planning and optimizing interventional treatments	Guidewires and catheters that incorporate various mechanical, electrical / optical and connectivity technologies
Orthopaedic implants	Orthopaedic implants for large joint, spine, extremity and trauma procedures	Precision manufacturing, leveraging capabilities and product processes including sterile packaging and coatings

Product	Description	Principal Product Attributes
Orthopaedic instruments	Reusable and single use orthopaedic instruments for large joint, spine, extremity and trauma procedures	Designed to improve surgical techniques, reduce surgery time, and increase surgical precision
Cases and trays	Delivery systems for cleaning and sterilizing orthopaedic instruments and implants	High degree of customization; Short, predictable development and production timelines
Laparoscopic surgery devices	Devices which include access devices, such as trocars and cannulas; imaging devices, such as endoscopes; energy based devices, such as vessel cutters and sealers and; endomechanical devices, such as endocutters, tissue staplers and other hand instruments	Precision manufacturing of tubing, machined components, plastics and finished device assembly
Arthroscopic surgery devices	Devices which include shavers and burrs, devices for soft tissue ablation, and tissue anchoring and suturing instruments	Precision manufacturing of tubing, machined components, plastics and finished device assembly
Biopsy and drug delivery devices	Devices used for minimally invasive access of the body for retrieval of tissue or delivery of drug therapy such as forceps, breast biopsy probes, and other interventional surgical instruments	Precision manufacturing of tubing, machined components, plastics and finished device assembly

RESEARCH AND DEVELOPMENT

Our position as a leading developer and manufacturer of medical devices and components is largely the result of our long history of technological innovation. We invest substantial resources in research, development and engineering. Our scientists, engineers and technicians focus on improving existing products, expanding the use of our products and developing new products and enhancements to our existing products. In addition to our internal technology and product development efforts, we also engage outside research institutions for unique technology projects. In order to facilitate the development of new and improved medical devices systems, starting in 2008, we significantly increased our investments in research and development. Net investments in medical device systems (including SG&A), which are being facilitated through our QiG segment, totaled $25.8 million, $23.3 million and $30.5 million for 2015, 2014 and 2013, respectively. After the completion of the pending Spin-off, we will continue to invest substantial resources in research, development and engineering to expand the use of our products and develop new products within the markets we serve. After the pending Spin-off is completed, the Company’s design and development of complete medical device systems will be completed by our combined teams in Greatbatch Medical, Lake Region Medical, and CCC. Further information regarding our research and development activities can be found in the “Product Development” section of Item 7 of this report.

PATENTS AND PROPRIETARY TECHNOLOGY

We rely on a combination of patents, licenses, trade secrets and know-how to establish and protect our proprietary rights to our technologies and products. Often, several patents covering various aspects of the design protect a single product. We believe this provides broad protection of the inventions employed.

As of January 1, 2016, we have 1,209 active issued patents, of which 94 were acquired with the Lake Region Medical acquisition. We also have 484 pending patent applications at various stages of approval. During 2015, there were 101

patent applications filed and 92 patents issued. Of the 1,693 patents filed and pending, approximately 378 of these relate to complete medical device systems.

After the completion of the Spin-off, Nuvectra, as an independent publicly-traded company, will own 153 patents and 119 pending patent applications that are included within the patent figures above, including the patents and patent applications that embody the intellectual property underlying Algovita and Nuvectra's neurostimulation technology platform.

In connection with the Spin-off, we expect to enter into two license agreements pursuant to which Nuvectra will license to us, subject to specified restrictions, rights in certain intellectual property underlying Nuvectra's neurostimulation technology platform. Under the terms of the unrestricted license agreement, Nuvectra will grant us a perpetual, non-exclusive, worldwide license to use, make, have made, offer to sell, sell, distribute and import certain patents, patent applications and other intellectual property rights underlying Nuvectra's neurostimulation technology platform for applications within the

neurostimulation fields of use. Under the terms of the restricted license agreement, Nuvectra will grant us a perpetual, non-exclusive, worldwide license to use, make, have made, offer to sell, sell, distribute and import certain other patents, patent applications and other intellectual property rights underlying Nuvectra's neurostimulation technology platform for applications outside of the neurostimulation fields of use.

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

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

MANUFACTURING AND QUALITY CONTROL

We leverage our strength as an innovative designer and manufacturer of finished devices and components to the medical device industry. Our manufacturing and engineering services include: design, testing, component production, and device assembly. We have integrated our proprietary technologies in our own products and those of our customers throughout the medical device industry. Our flexible, high productivity manufacturing capabilities span sites across the United States, Mexico, Uruguay, Europe, and Asia.

Due to the highly regulated nature of the products we produce, we have implemented strong quality systems across all sites. The quality systems at our sites are compliant with and certified to various recognized international standards, requirements, and directives. Each site's quality system is certified under an applicable International Organization for Standardization ("ISO") quality system standard, such as ISO 13485 or ISO 9001. This certification requires, among other things, an implemented quality system that applies (where applicable) to the design and manufacture of components, assemblies and finished medical devices, including component quality and supplier control. Maintenance of these certifications for each facility requires periodic re-examination from an independent notified body.

Along with ISO 13485, the facilities producing finished medical devices are subject to extensive and rigorous regulation by numerous government bodies, including the FDA and comparable international regulatory agencies in order to ship product worldwide. For these facilities, we maintain FDA registration and compliance to all applicable domestic and international regulations. Compliance with applicable regulatory requirements is subject to continual review and is monitored through periodic inspections by the FDA and other international regulatory bodies.

SALES AND MARKETING

We sell our products directly to our customers. In 2015, approximately 50% of our products were sold in the U.S. Sales outside the U.S. are primarily to customers whose corporate offices are located and headquartered in the U.S. Information regarding our sales by geographic area is set forth in Note 19 "Business Segment, Geographic and Concentration Risk Information" of the Notes to Consolidated Financial Statements contained in Item 8 of this report.

Although the majority of our customers contract with us to develop custom components and assemblies to fit their product specifications, we also provide system and device solutions ready for market distribution by OEMs. As a result, we have established close working relationships between our internal program managers and our customers.

We market our products and technologies at industry meetings and trade shows domestically and internationally. Internal account executives support all activity and involve engineers and technology professionals in the sales process to address customer requests appropriately. For system and device solutions, we partner with our customers' research, marketing, and clinical groups to jointly develop technology platforms in alignment with their product roadmaps and therapy needs.

We leverage our account executives with support from our engineers to design and sell product solutions into our targeted markets. Our account executives are trained to assist our customers in selecting appropriate chemistries and configurations. We market our products and services through well-defined selling strategies and marketing campaigns that are customized for each of the industries we target.

We have placed additional emphasis on reaching long-term agreements with our OEM customers in order to secure our revenue base. At times, we have provided our customers with price concessions in exchange for entering into long-term agreements and certain volume commitments.

Firm backlog orders at January 1, 2016 and January 2, 2015 were approximately $355 million and $174 million, respectively. The majority of the orders outstanding at January 1, 2016 are expected to be shipped within one year.

CUSTOMERS

Our Greatbatch Medical and Lake Region Medical customers include large multi-national OEMs and their subsidiaries such as, in alphabetical order here and throughout this report, Abbott Labs, Biotronik, Boehringer Ingelheim, Boston Scientific, Cyberonics, Halliburton Company, Johnson & Johnson, Medtronic, Nevro Corp., Philips Healthcare, Smith & Nephew, Sorin Group, St. Jude Medical, Stryker, and Zimmer Biomet. During 2015, 2014, and 2013, Biotronik, Johnson & Johnson, Medtronic, and St. Jude Medical collectively accounted for 52%, 54% and 56% of our total sales, respectively. We have been successful in leveraging our diversified product line to further enhance our relationships with these customers and selling to more of their operating divisions, which cover the cardiac, neuromodulation, orthopaedic and vascular markets. QiG customers include numerous scientists, hospitals and universities throughout the world who perform research for the neuroscience and clinical markets. With the acquisition of CCC in 2014, QiG customers also include various research companies and institutes and early stage medical device companies.

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

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

SUPPLIERS AND RAW MATERIALS

We purchase critical raw materials from a limited number of suppliers due to the technically challenging requirements of the supplied product and/or the lengthy process required to qualify these materials both internally and with our customers. We cannot quickly establish additional or replacement suppliers for these materials because of these rigid requirements. For these critical raw materials, we maintain minimum safety stock levels and partner with suppliers through contract to help ensure the continuity of supply. Historically, we have not experienced any significant interruptions or delays in obtaining critical raw materials.

Many of the raw materials that are used in our products are subject to fluctuations in market price. In particular, the prices of stainless steel, titanium and precious metals, such as platinum, have historically fluctuated, and the prices that we pay for these materials, and, in some cases, their availability, are dependent upon general market conditions. In most cases, we have pass-through pricing arrangements with our customers that purchase components containing precious metals or have established firm-pricing agreements with our suppliers that are designed to minimize our

exposure to market fluctuations.

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

As discussed more fully in Item 1A “Risk Factors” of this report, our business depends on a continuous supply of raw materials from a limited number of suppliers. If an unforeseen interruption of supply were to occur, we may be unable to obtain substitute sources for these raw materials on a timely basis or on terms acceptable to us, which could harm our ability to manufacture our products profitably or on time. Additionally, we may be unable to quickly establish additional or replacement suppliers for these materials as there are a limited number of worldwide suppliers.

COMPETITION

Our existing and potential competitors include our OEM customers that currently have vertically integrated operations and may expand their vertical integration capability in the future. Competitors also include independent suppliers who typically specialize in one type of component. Our known non-vertically integrated competitors include the following:

Greatbatch Medical

Product Line	Competitors
Medical batteries	Eagle-Picher Quallion
Capacitors	AVX (subsidiary of Kyocera) Critical Medical Components
Feedthroughs	Alberox (subsidiary of The Morgan Crucible Co. PLC)
EMI filtering	AVX (subsidiary of Kyocera) Eurofarad
Enclosures	Heraeus Hudson National
Machined and molded components	Team Vantage
Value added assembly	Numerous
Catheters	Creganna Teleflex Vention medical
Introducers	Pressure Products Theragenics (Galt) Merit Medical
Stimulation leads	Oscor
Orthopaedic trays, instruments and implants	Avalign Technologies IMDS Micropulse, Inc. Juno Orchid Sandvik Paragon Tecomet
Manufactured primary cells	Tracer Technologies Engineered Power Saft Ultralife

Assembled primary and secondary battery packs	Vitzrocell Totex Palladium ICC/Nexergy BMZ Ultralife Saft

QiG

Product Line	Competitors
Implantable medical devices	St. Jude Medical Boston Scientific Medtronic Johnson & Johnson
Medical device design and development	Cirtec Medical Systems Stellar Technologies Flextronics Vention Medical

Lake Region Medical

Product Line	Competitors
Access and infusion therapy guidewires	TE Connectivity (acquired AdvancedCath and definitive agreement to acquire Creganna) Merit Medical OEM EP Flex
Angiographic guidewires	TE Connectivity (acquired AdvancedCath and definitive agreement to acquire Creganna) Merit Medical OEM Bard OEM Heraeus (Neometrix)
Introducer sheaths and dilators	TE Connectivity (acquired AdvancedCath and definitive agreement to acquire Creganna) Merit Medical OEM Oscor Freudenberg Medical (Medventure)
Interventional guidewires	Asahi Intecc TE Connectivity (acquired AdvancedCath and definitive agreement to acquire Creganna) FMD Co.
Structural heart guidewires	TE Connectivity (acquired AdvancedCath and definitive agreement to acquire Creganna) Merit Medical OEM Bard OEM EP Flex

Steerable sheaths	TE Connectivity (acquired AdvancedCath and definitive agreement to acquire Creganna) Oscor
Embolic protection devices	TE Connectivity (acquired AdvancedCath and definitive agreement to acquire Creganna) Merit Medical OEM

Product Line	Competitors
Delivery systems	TE Connectivity (acquired AdvancedCath and definitive agreement to acquire Creganna) Freudenberg Medical (Medventure) Confluent Medical Technologies Vention Medical
Microcatheters	TE Connectivity (acquired AdvancedCath and definitive agreement to acquire Creganna) Vention Medical
Electrical and optical devices	TE Connectivity (acquired AdvancedCath and definitive agreement to acquire Creganna)
Orthopaedic implants, instruments, cases and trays	Avalign Technologies Micropulse, Inc. Juno Orchid Paragon Tecomet Perryman Norwood Medical
Laparoscopic surgery devices	Norwood Medical Remmele
Arthroscopic surgery devices	Tegra B & M Precision 3D Medical
Biopsy and drug delivery devices	Tegra

GOVERNMENT REGULATION

As described below, our business is subject to direct governmental regulation, including the laws and regulations generally applicable to all businesses in the jurisdictions in which we operate. We are subject to federal, state and local environmental laws and regulations governing the emission, discharge, use, storage and disposal of hazardous materials and the remediation of contamination associated with the release of these materials at our facilities and at off-site disposal locations. Our manufacturing and research, development and engineering activities may involve the controlled use of small amounts of hazardous materials. Liabilities associated with hazardous material releases arise principally under the Federal Comprehensive Environmental Response, Compensation and Liability Act and analogous state laws that impose strict, joint and several liability on owners and operators of contaminated facilities and parties that arrange for the off-site disposal of hazardous materials. Except as described below, we are not aware

of any material noncompliance with the environmental laws currently applicable to our business and we are not subject to any material claim for liability with respect to contamination at any of our facilities or any off-site location. We may, however, become subject to these environmental liabilities in the future as a result of our historic or current operations.

Our Collegeville, PA facility, which was acquired as part of the Lake Region Medical acquisition, is subject to two administrative consent orders entered into with the U.S. Environmental Protection Agency (the “EPA”), which require ongoing groundwater treatment and monitoring at the site as a result of historic leaks from underground storage tanks. Upon approval by the EPA of our proposed post remediation care plan, which requires a continuation of the groundwater treatment and monitoring process at the site, we expect that the consent orders will terminate. During the first half of 2016, we expect a decision from the EPA on whether our post remediation care plan has been approved. The groundwater treatment process at our Collegeville facility consists of a groundwater extraction and treatment system and the performance of annual sampling of a defined set of groundwater wells as a means to monitor containment within approved boundaries.

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

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

The PMA process is a more rigorous process that is required to demonstrate that a new medical device is safe and effective. This is demonstrated by generating data regarding design, manufacturing processes, materials, bench testing, and animal testing, and typically human clinical data. Some of our products that we are developing are Class III medical devices that require a PMA or, in the European Union, premarket approval through submission of a Design Dossier.

As a manufacturer of medical devices and components that go into medical devices, we are also subject to periodic inspection by the FDA for compliance with the FDA’s Quality System Regulations and the applicable notified body in the European Union to ensure conformity to the Medical Device Directives and Active Implantable Medical Device Directives. We believe that our quality controls, development, testing, manufacturing, labeling, marketing and distribution of our medical devices conform to the requirements of all pertinent regulations.

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

We are also subject to various other environmental, transportation and labor laws as well as various other directives and regulations both in the U.S. and abroad. We believe that compliance with these laws will not have a material impact on our capital expenditures, earnings or competitive position. Given the scope and nature of these laws, however, they may have a material impact on our operational results in the future.

The Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act (collectively “Health Care Reform”) legislated broad-based changes to the U.S. healthcare system that could significantly impact our business operations and financial results, including higher or lower revenue, as well as higher employee medical costs and taxes. Health Care Reform imposes significant new taxes on medical device OEMs, which will result in a significant increase in the tax burden on our industry and which could have a material negative impact on our financial condition, results of operations and our cash flows. Beginning on January 1, 2016, the medical device excise tax was suspended through December 31, 2017, but if this suspension is not continued or made permanent thereafter, the medical device excise tax will be automatically reinstated starting on January 1, 2018. Other elements of Health Care Reform such as comparative effectiveness research, an independent payment advisory board, payment system reforms including shared savings pilots and other provisions could meaningfully change the way healthcare is developed and delivered, and may materially impact numerous aspects of our business, results of operations and financial condition. Many significant parts of Health Care Reform will be phased in over the next several years and require further guidance and clarification in the form of regulations. The medical device tax increased our cost of sales by $0.6 million, $0.7 million, and $0.5 million in 2015, 2014 and 2013, respectively.

EMPLOYEES

The following table provides a breakdown of our employees:

Manufacturing – U.S.	4,330
General and administrative – U.S.	294
Sales and marketing – U.S.	186

Research, development and engineering – U.S.	646
Mexico	2,130
Europe	1,595
Uruguay	236
Asia	142
Total	9,559

We also employ approximately 800 temporary employees worldwide to assist us with various projects and service functions and address peaks in staff requirements. Our employees at our Chaumont, France, Tijuana, Mexico, and Aura, Germany facilities are represented by a union. Nearly all of the positions at our foreign facilities are manufacturing related. We believe that we have a good relationship with our employees.

EXECUTIVE OFFICERS OF THE COMPANY

Information concerning our executive officers is presented below as of March 1, 2016. The officers' terms of office run from year to year until the first meeting of the Board of Directors occurring immediately following our Annual Meeting of Stockholders, and until their successors are elected and qualified, except in the case of earlier death, retirement, resignation or removal.

Mauricio Arellano, age 49, is Executive Vice President for Global Operations and has served in that office since June 2013. From December 2010 to June 2013, he was President of Greatbatch Medical. Mr. Arellano served as Senior Vice President and Business Leader of our Cardiac and Neurology Group from October 2008 until December 2010, Senior Vice President and Business Leader of our Cardiac Rhythm Management ("CRM") and Neuromodulation Group from January 2008 to October 2008, Senior Vice President and Business Leader of our Medical Solutions Group from November 2006 to January 2008, and as Vice President of Greatbatch Mexico from January 2005 to November 2006. Mr. Arellano joined our Company in October 2003 as the Plant Manager of our former Carson City, NV facility. Prior to joining our Company, he served in a variety of human resources and operational roles with Tyco Healthcare - Especialidades Medicas Kenmex and with Sony de Tijuana Este.

Jennifer M. Bolt, age 47, is President, Electrochem, and has served in that office since October 2015. From June 2013 to October 2015 she was Vice President, Supply Chain and Operational Excellence for Greatbatch. Ms. Bolt held the position of Vice President, Operations for Electrochem from May 2012 to June 2013, and prior to that served as Director of Operations of our Raynham, MA facility from September 2007 to May 2012. Ms. Bolt joined our Company in May 2005 as the Manufacturing Engineering Manager for our Alden, NY facility. Prior to joining our company, she served in a variety of engineering and operational roles at General Motors/Delphi and Eastman Kodak.

Michael Dinkins, age 61, is Executive Vice President & Chief Financial Officer, and has served in that office since joining our Company in May 2012. From 2008 until May 2012, he was Executive Vice President and Chief Financial Officer of USI Insurance Services, an insurance intermediary company. From 2005 until 2008, he was Executive Vice President and Chief Financial Officer of Hilb Rogal & Hobbs Co., an insurance and risk management services company. Prior to that, Mr. Dinkins held senior positions at Guidant Corporation, Access Worldwide Communications, Cadmus Communications Group and General Electric Company.

Jeremy Friedman, age 62, is President, Cardio & Vascular, an office he has held since the Company's acquisition of Lake Region Medical in October 2015. Prior to that acquisition, he was Executive Vice President of Lake Region Medical and President and Chief Operating Officer of Lake Region Medical's Cardio and Vascular Division from August 2013 to October 2015. From September 2007 to August 2013, he was Executive Vice President and Chief Financial Officer of Accellent, Inc. From January 2001 until September 2007, Mr. Friedman held a number of leadership positions at Flextronics, a global contract manufacturing services firm, including Chief Operating Officer of Flextronics Network Services in Stockholm, Sweden and Senior Vice President of Finance and Operations, Components Division. From June 1994 until January 2001, he was President and Chief Operating Officer of We're Entertainment Inc., a specialty retailer of apparel and hard goods. Prior to 1994, Mr. Friedman held a number of finance and operations positions with Phillips-Van Heusen Corporation and KPMG.

Antonio Gonzalez, age 42, is President, CRM & Neuromodulation, and has served in that office since October 2015. From October 2014 to October 2015, he served as Vice President, Operations, Greatbatch Medical Mexico. Previously, Mr. Gonzalez served as Executive Director, Operations Mexico between November 2011 and October 2014, Director of Global Supply Chain from November 2007 to November 2011, Director of Strategic Projects from March 2006 to November 2007, and Supply Chain Manager for Greatbatch Tecnologías de Mexico from January 2005 to March 2006. Prior to joining our Company, he served in a variety of finance, operations, supply chain and customer management roles with Sanmina-SCI, BellSouth Telecommunications, HSBC and ING Bank.

Andrew P. Holman, age 48, is President, Corporate Development, and has served in that role since October 2015. From June 2013 until October 2015, he served as Executive Vice President, Global Sales & Marketing - Greatbatch Medical. He joined Greatbatch in April 2012 as Vice President of Sales and Marketing for Greatbatch Medical. From October 2011 until joining Greatbatch, Mr. Holman was a consultant with HarQuinn, LLC. From September 2009 to October 2011, he served as Executive Vice President, Sales & Marketing for DJO Global, Inc., and from October 2005 to June 2009, he served as President of the Americas for the Orthopaedics business unit of Smith & Nephew, Inc. Mr. Holman previously held various sales and marketing leadership positions at Johnson & Johnson, Inc., Boston Scientific Corporation and Xerox Corporation.

Thomas J. Hook, age 53, has served as our President & Chief Executive Officer since August 2006. Prior to August 2006, he was our Chief Operating Officer, a position he assumed upon joining our Company in September 2004. From August 2002 until September 2004, Mr. Hook was employed by CTI Molecular Imaging where he had served as President, CTI Solutions Group.

Timothy G. McEvoy, age 58, is Senior Vice President, General Counsel & Secretary, and has served in that office since joining our Company in February 2007. From 1992 until January 2007, he was employed in a variety of legal roles by Manufacturers and Traders Trust Company.

Declan Smyth, age 45, is President, Advanced Surgical & Orthopaedics, having served in that office since the Company's acquisition of Lake Region Medical in October 2015. From January 2013 to the Company's acquisition of Lake Region Medical in October 2015, he was President of Lake Region Medical's Advanced Surgical Business. From January 2012 to January 2013, he was Strategic Product Leader of Surgical Devices and Diagnostics at Accellent, Inc. and prior to that served as Senior Director of Engineering at Accellent, Inc. from August 2009 to January 2012.

Kristin Trecker, age 50, is Executive Vice President and Chief Human Resources Officer. Prior to joining the Company in November 2015, she served as Senior Vice President and Chief Human Resources Officer for MTS Systems in Minneapolis, Minnesota from February 2012 until October 2015. From April 2006 to July 2011, she was Senior Vice President Human Resources at Lawson Software.

AVAILABLE INFORMATION

We make available free of charge through our Internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file those reports with, or furnish them to, the SEC. Our Internet address is www.greatbatch.com. The information contained on our website is not incorporated by reference in this annual report on Form 10-K and should not be considered a part of this report. These items may also be obtained free of charge by written request made to Christopher J. Thome, Assistant Corporate Controller – Reporting and Shared Services, Greatbatch, Inc., 10000 Wehrle Drive, Clarence, New York 14031.

CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

Some of the statements contained in this annual report on Form 10-K and other written and oral statements made from time to time by us and our representatives are not statements of historical or current fact. As such, they are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We have based these forward-looking statements on our current expectations, and these statements are subject to known and unknown risks, uncertainties and assumptions. Forward-looking statements include statements relating to:

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

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

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

factors include the following: our dependence upon a limited number of customers; customer ordering patterns; product obsolescence; our inability to market current or future products; pricing pressure from customers; our ability to timely and successfully implement cost reduction and plant consolidation initiatives; our reliance on third party suppliers for raw materials, products and subcomponents; fluctuating operating results; our inability to maintain high quality standards for our products; challenges to our intellectual property rights; product liability claims; product field actions or recalls; our inability to successfully consummate and integrate acquisitions and to realize synergies and to operate these acquired businesses, including Lake Region

Medical, in accordance with expectations; our unsuccessful expansion into new markets; our failure to develop new products including system and device products; the timing, progress and ultimate success of pending regulatory actions and approvals; our inability to obtain licenses to key technology; regulatory changes, including Health Care Reform, or consolidation in the healthcare industry; global economic factors including currency exchange rates and interest rates; the resolution of various legal actions brought against the Company; and other risks and uncertainties that arise from time to time and are described in Item 1A "Risk Factors" of this report.

ITEM 1A. RISK FACTORS

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

Risks Related To Our Business

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

In 2015, Biotronik, Johnson & Johnson, Medtronic and St. Jude Medical collectively accounted for approximately 52% of our revenues. Our supply agreements with these customers may not be renewed. Furthermore, many of our supply agreements do not contain minimum purchase level requirements and therefore there is no guaranteed source of revenue that we can depend upon under these agreements. The loss of any large customer, a reduction of business with that customer, or a delay or failure by that customer to make payments due to us, would harm our business, financial condition and results of operations.

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

We sell our products to customers in several industries that experience rapid technological changes, new product introductions and evolving industry standards. Without the timely introduction of new products and enhancements, our products and services will likely become technologically obsolete over time and we may lose a significant number of our customers. We dedicate a significant amount of resources to the development of our products and technologies. Our product development efforts may be affected by a number of factors, including our ability to anticipate customer needs, develop new products, secure intellectual property protection for our product, and manufacture products in a cost effective manner. We would be harmed if we did not meet customer requirements and expectations. Our inability, for technological or other reasons, to successfully develop and introduce new and innovative products and enhancements could result in a loss of customers and lower revenues.

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

The markets for our products have been growing in recent years. If the markets for our products do not grow as forecasted by industry experts, our revenues could be less than expected. In addition, it is difficult to predict the rate at which the markets for our products will grow or at which new and increased competition will result in market saturation. Slower growth in the cardiac, neuromodulation, advanced surgical, orthopaedic, portable medical, cardio and vascular, environmental, military or energy markets in particular would negatively impact our revenues. In addition, we face the risk that our products will lose widespread market acceptance. Our customers may not continue to utilize the products we offer and a market may not develop for our future products.

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

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

Competition in connection with the manufacturing of our medical products may intensify in the future. One or more of our medical customers may undertake additional vertical integration and/or supplier diversification initiatives and begin to manufacture or dual-source some or all of their components that we currently supply them which could cause

our operating results to suffer. The market for commercial power sources is competitive, fragmented and subject to rapid technological change. Many other commercial power source suppliers are larger and have greater financial, operational, economies of scale, personnel, sales, technical and marketing resources than us. These and other companies may develop products that are superior or more cost effective to ours, which could result in lower revenues and operating results.

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

We intend to expand into new markets and develop new and modified products based on our existing technologies and engineering capabilities, including the development of complete medical device systems. These efforts have required and will continue to require us to make substantial investments, including significant research, development and engineering expenditures and capital expenditures for new, expanded or improved manufacturing facilities. Additionally, many of the new products we are working on take longer and more resources to develop and commercialize, including obtaining regulatory approval.

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

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

We have made price concessions to some of our larger customers in recent years and we expect customer pressure for price concessions will continue. Price concessions or reductions may cause our operating results to suffer.

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

Our business depends on a continuous supply of raw materials. The principal raw materials used in our business include lithium, iodine, gold, CFx, palladium, stainless steel, aluminum, cobalt chrome, tantalum, platinum, ruthenium, gallium trichloride, vanadium oxide, iridium, titanium and plastics. The supply and price of these raw materials are susceptible to fluctuations due to transportation issues, government regulations, price controls, foreign civil unrest, worldwide economic conditions or other unforeseen circumstances. Increasing global demand for these raw materials has caused prices of these materials to increase significantly. In addition, there are a limited number of worldwide suppliers of several raw materials needed to manufacture our products. In addition, for reasons of quality, cost effectiveness or availability, we obtain some raw materials from a sole supplier. Although we work closely with our suppliers to ensure continuity of supply, we may not be able to continue to procure raw materials critical to our business at all or to procure them at acceptable price levels.

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

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

At January 1, 2016, we had $2.0 billion of intangible assets, representing 67% of our total assets. These intangible assets consist primarily of goodwill, trademarks, tradenames, customer lists and patented technology arising from our acquisitions. Goodwill and other intangible assets with indefinite lives are not amortized, but are tested annually or upon the occurrence of certain events that indicate that the assets may be impaired. Definite lived intangible assets are amortized over their estimated useful lives and are tested for impairment upon the occurrence of certain events that indicate that the assets may be impaired. We may not receive the recorded value for our intangible assets if we sell or liquidate our business or assets. In addition, this significant amount of intangible assets increases the risk of a large charge to earnings in the event that the recoverability of these intangible assets is impaired. In the event of such a charge to earnings, the market price of our common stock could be affected. In addition, intangible assets with definite lives, which represent $894.0 million of our net intangible assets at January 1, 2016, will continue to be amortized. We incurred total amortization expenses relating to these intangible assets of $17.5 million in 2015. These expenses

will reduce our future earnings or increase our future losses.

Quality problems with our products could harm our reputation and erode our competitive advantage.

Quality is important to us and our customers, and our products are held to high quality and performance standards. In the event our products fail to meet these standards, our reputation could be harmed, which could erode our competitive advantage over competitors, causing us to lose customers and resulting in lower revenues.

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

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

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

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

If we become subject to product liability claims, our operating results and financial condition could suffer.

Our business exposes us to potential product liability claims that are inherent in the design, manufacture and sales of our products. Product failures, including those that arise from the failure to meet product specifications, misuse or malfunction, or design flaws, or the use of our products with components or systems not manufactured or sold by us could result in product liability claims or a recall. Many of our products are components and function in interaction with our customers' medical devices. For example, our batteries are produced to meet electrical performance, longevity and other specifications, but the actual performance of those products is dependent on how they are utilized as part of our customers' devices over the lifetime of their products. Product performance and device interaction from time to time have been, and may in the future be, different than expected for a number of reasons. Consequently, it is possible that customers may experience problems with their medical devices that could require device recall or other corrective action, where our batteries met the specification at delivery, and for reasons that are not related primarily or at all to any failure by our product to perform in accordance with specifications. It is possible that our customers (or end-users) may in the future assert that our products caused or contributed to device failure. Even if these assertions do not lead to product liability or contract claims, they could harm our reputation and our customer relationships.

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

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

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

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

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

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

We rely on a combination of patents, licenses, trade secrets and know-how to establish and protect our rights to our technologies and products. As of January 1, 2016, we have 1,209 active patents filed. However, the steps we have taken and will take in the future to protect the intellectual property rights to our technologies and products may not be adequate to deter misappropriation of our intellectual property. In addition to seeking formal patent protection whenever possible, we attempt to protect our proprietary rights and trade secrets by entering into confidentiality and non-compete agreements with employees,

consultants and third parties with which we do business. However, these agreements may be breached and, if breached, there may be no adequate remedy available to us and we may be unable to prevent the unauthorized disclosure or use of our technical knowledge, practices and/or procedures. If our trade secrets become known, we may lose our competitive advantages. Additionally, as patents and other intellectual property protection expire we may lose our competitive advantage.

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

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

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

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

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

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

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

We monitor the markets in which we compete and assess opportunities to better align expenses with revenues, while preserving our ability to make needed investments in research and development projects, capital and our people that we believe are critical to our long-term success. Our success will depend in large part upon our ability to attract, train, retain and motivate highly skilled employees. There is currently aggressive competition for employees who have experience in technology and engineering. We compete intensely with other companies to recruit and hire from this limited pool. The industries in which we compete for employees are characterized by high levels of employee attrition. Although we believe we offer competitive salaries and benefits, we may have to increase spending in order to attract, train and retain qualified personnel.

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

Our future performance depends to a significant degree upon the continued contributions of our senior management team and key technical personnel. Our products are highly technical in nature. In general, only highly qualified and

trained scientists have the necessary skills to develop our products. The loss or unavailability to us of any member of our senior management team or a key technical employee could significantly harm us. We face intense competition for these professionals from our competitors, customers and companies operating in our industry. To the extent that the services of members of our senior management team and key technical personnel would be unavailable to us for any reason, we would be required to hire other personnel to manage and operate our Company and to develop our products and technology, which could negatively impact our business. We may not be able to locate or employ these qualified personnel on acceptable terms.

We may not realize the expected benefits from our cost savings and consolidation initiatives or those initiatives may have unintended consequences, which may harm our business.

We have incurred significant charges related to various cost savings and consolidation initiatives. These initiatives were undertaken to improve our operational effectiveness, efficiencies and profitability. Information regarding some of these initiatives is discussed in Note 13 “Other Operating Expenses, Net” of the Notes to Consolidated Financial Statements contained in Item 8 of this report. Cost reduction efforts under these initiatives include various cost and efficiency improvement measures, such as headcount reductions, the relocation of resources and administrative and functional activities, the closure of facilities, the transfer of production lines, the sale of non-strategic assets and other efforts to streamline our business, among other actions. These measures could yield unintended consequences, such as distraction of our management and employees, business disruption, disputes with customers, attrition beyond our planned reduction in workforce and reduced employee productivity. If any of these unintended consequences were to occur, they could negatively affect our business, financial condition and results of operations. In addition, headcount reductions and customer disputes may subject us to the risk of litigation, which could result in substantial cost. Moreover, our cost reduction efforts result in charges and expenses that impact our operating results. Our cost savings and consolidation initiatives, or other expense reduction measures we take in the future, may not result in the expected cost savings.

Successful integration of Lake Region Medical and anticipated benefits of the Lake Region Medical acquisition cannot be assured and integration matters could divert attention of management away from operations. The Lake Region Medical acquisition could have an adverse effect on our business relationships.

There can be no assurance that Lake Region Medical will be able to maintain and grow its business and operations. In addition, the market segments in which Lake Region Medical operates may experience declines in customer demand and/or the entrance of new competitors. Customers, suppliers and other third parties with business relationships with us or Lake Region Medical may decide not to renew or may decide to seek to terminate, change or renegotiate their relationships with us and/or Lake Region Medical as a result of the Lake Region Medical acquisition, whether pursuant to the terms of their existing agreements with us, Lake Region Medical or otherwise.

Our ability to realize the anticipated benefits of the Lake Region Medical acquisition will depend, to a large extent, on our ability to integrate the legacy businesses. Integrating and coordinating aspects of the operations and personnel of Lake Region Medical with ours involves complex operational, technological and personnel-related challenges. This process is time-consuming and expensive, disrupts the businesses of both companies and may not result in the full benefits expected by us, including cost synergies expected to arise from supply chain efficiencies and overlapping general and administrative functions.

The potential difficulties, and resulting costs and delays, include:

- managing a larger combined company;
- consolidating corporate and administrative infrastructures;
- issues in integrating manufacturing, warehouse and distribution facilities, research and development and sales forces;
- difficulties attracting and retaining key personnel;
- loss of customers and suppliers and inability to attract new customers and suppliers;
- unanticipated issues in integrating information technology, communications and other systems;
- incompatibility of purchasing, logistics, marketing, administration and other systems and processes; and
- unforeseen and unexpected liabilities related to the acquisition or Lake Region Medical’s business.

Additionally, the integration of our and Lake Region Medical’s operations, products and personnel may place a significant burden on management and other internal resources. The attention of our management may be directed towards integration considerations and may be diverted from our day-to-day business operations, and matters related to the integration may require commitments of time and resources that could otherwise have been devoted to other opportunities that might have been beneficial to us and our business. The diversion of management’s attention, and any difficulties encountered in the transition and integration process, could harm our business, financial condition and operating results.

Even if our businesses are successfully integrated, we may not realize the full benefits of the Lake Region Medical acquisition, including anticipated synergies, cost savings or growth opportunities, within the expected timeframe or at all. In addition, we expect to incur significant integration and restructuring expenses to realize synergies. However, many of the expenses that will be incurred are, by their nature, difficult to estimate accurately. These expenses could, particularly in the near term, exceed the savings that we expect to achieve from elimination of duplicative expenses and the realization of economies of scale and cost savings. Although we expect that the realization of efficiencies related to the integration of the businesses may offset

incremental transaction, acquisition-related and restructuring costs over time, we cannot give any assurance that this net benefit will be achieved in the near term, or at all.

Any of the matters described above could adversely affect our business or harm our financial condition, results of operations or business prospects.

We incurred substantial additional indebtedness in connection with the Lake Region Medical acquisition and may not be able to meet all of our debt obligations.

We incurred substantial additional indebtedness in connection with the Lake Region Medical acquisition. At January 1, 2016, our total indebtedness was $1.7 billion as compared to $187 million at January 2, 2015. We funded the cash portion of the Lake Region Medical acquisition consideration, the pay-off of certain outstanding indebtedness of ours and of Lake Region Medical and the payment of transaction-related expenses through a combination of available cash-on-hand and proceeds from debt financings, which financings consisted of the issuance of $360 million of 9.125% senior notes due 2023 and borrowings of $1.4 billion under our Senior Secured Credit Facility. As of January 1, 2016, our debt service obligations, comprised of principal and interest, during the following 12 months are estimated to be approximately $130 million. As a result of the increase in our outstanding indebtedness, demands on our cash resources have increased. The increased amount of outstanding indebtedness could, among other things:

- require us to dedicate a large portion of our cash flow from operations to the servicing and repayment of our outstanding indebtedness, thereby reducing funds available for working capital, capital expenditures, research and development expenditures and other general corporate requirements;
- limit our ability to obtain additional financing to fund future working capital, capital expenditures, research and development expenditures and other general corporate requirements in the future;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- restrict our ability to make strategic acquisitions or dispositions or to exploit business opportunities;
- place us at a competitive disadvantage compared to our competitors that have less outstanding indebtedness; and
- adversely affect the market price of our common stock.

We incurred substantial expenses related to the acquisition of Lake Region Medical and expect to continue to incur substantial expenses related to its integration.

We have incurred substantial expenses in connection with the acquisition of Lake Region Medical and expect to continue to incur substantial expenses in connection with its integration. Specifically, we incurred approximately $32 million of transaction and integration costs related to the acquisition of Lake Region Medical during 2015. In addition, we have estimated the amount of investment necessary to achieve the projected annual pre-tax operating synergies from the acquisition of Lake Region Medical (which synergies are projected to be $25 million in 2016 and increase to at least $60 million in 2018), to be $69 million, which consists of $22 million in capital expenditures and $47 million of operating expenses, during the three-year period after the completion of the acquisition. However, many of the expenses that will be incurred are, by their nature, difficult to estimate accurately. These expenses could, particularly in the near term, exceed the savings that we expect to achieve from elimination of duplicative expenses and the realization of economies of scale and cost savings. Although we expect that the realization of efficiencies related to the integration of Lake Region Medical's business will offset incremental transaction, acquisition-related and restructuring costs over time, this net benefit may not be achieved in the near term, or at all.

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

One facet of our growth strategy is to make acquisitions that complement our core competencies in technology and manufacturing to enable us to manufacture and sell additional products to our existing customers and to expand our business into related markets. Our continued growth may depend on our ability to identify and acquire companies that complement or enhance our business on acceptable terms. We may not be able to identify or complete future acquisitions. In addition, even if we are able to identify future acquisitions, we may not be able to effect such acquisitions under the terms of the indenture governing our 9.125% senior notes due 2023 or our Senior Secured Credit Facility. Some of the risks that we may encounter include expenses associated with and difficulties in identifying potential targets, the costs associated with unsuccessful acquisitions, and higher prices for acquired companies because of competition for attractive acquisition targets.

Lake Region Medical was previously a private company and has not been required to comply with the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”).

Sarbanes-Oxley requires public companies to have and maintain effective internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements and to have management report on the effectiveness of those controls on an annual basis (and have its independent public accountants attest

annually to the effectiveness of such internal controls). As a private company, Lake Region Medical was not required to comply with the requirements of Sarbanes-Oxley.

In connection with the completion of the Lake Region Medical acquisition, we are beginning to apply our Sarbanes-Oxley procedures regarding internal controls over financial reporting with respect to Lake Region Medical. This process will require a significant amount of time from our management and other personnel and will require us to expend a significant amount of financial resources, which is likely to increase our compliance costs. We will be required to assess Lake Region Medical's internal controls over financial reporting at the end of 2016.

The Spin-off of Nuvectra may not be completed in accordance with the expected plans or anticipated timeline and, if completed, may not achieve the intended results.

On July 30, 2015, Greatbatch announced the Spin-off of a portion of its QiG reporting segment through a tax-free distribution of Nuvectra to the stockholders of Greatbatch on a pro rata basis. In February 2016, the Board of Directors of Greatbatch approved the Spin-off with a distribution ratio whereby Greatbatch stockholders will receive one share of Nuvectra common stock for every three shares of Greatbatch common stock held. The Spin-off is expected to be completed in March 2016, however, we could be delayed or prevented from completing the Spin-off, or be forced to complete it on terms or conditions that are less favorable or different than currently expected, for a variety of reasons, including unanticipated developments, such as uncertainty of the financial markets, or other legal or regulatory developments. Therefore, we cannot assure you that we will be able to complete the Spin-off under the expected plans or anticipated timeline, if at all. Even if the Spin-off is completed, we may not be able to realize some or all of the anticipated benefits from the Spin-off. Moreover, following the completion of the Spin-off, the combined value of the common stock of the two publicly-traded companies may not be equal to or greater than what the value of the Greatbatch common stock would have been had the Spin-off not occurred. In addition, we have spent, and, prior to completion of the Spin-off, we expect to continue to spend substantial time, money and effort on completing the Spin-off, without any assurance that it will be completed. Our investments in the Spin-off, in terms of financial and management resources, may limit our ability to pursue other business opportunities and distract us from operating our businesses as currently conducted.

Interruptions of our manufacturing operations could delay production and affect our operations.

Our products are designed and manufactured in facilities located around the world. In most cases, the manufacturing of specific product lines is concentrated in one or a few locations. Our business involves complex manufacturing processes and hazardous materials that can be dangerous to our employees. Although we employ safety procedures in the design and operation of our facilities, there is a risk that an accident or death could occur. Any accident, such as a chemical spill or fire, could result in significant manufacturing delays or claims for damages resulting from injuries, which would harm our operations and financial condition. The potential liability resulting from any such accident or death, to the extent not covered by insurance, could harm our financial condition or operating results. Any disruption of operations at any of our facilities, and in particular our larger facilities, could result in production delays, which could affect our operations and harm our business.

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

Our sales outside the U.S., which accounted for 50% of sales for 2015, and our operations in Europe, Asia, and Central and South America are and will continue to be subject to a number of risks and potential costs, including:

- changes in foreign economic conditions and/or regulatory requirements;
- local product preferences and product requirements;
- outstanding accounts receivables that take longer to collect than is typical in the U.S.;
- difficulties in enforcing agreements through foreign legal systems;
- less protection of intellectual property in some countries outside of the U.S.;
- trade protection measures and import and export licensing requirements;
- work force instability;
- political and economic instability; and

- complex tax and cash management issues.

We earn revenue and incur expenses related to our foreign sales and operations that are denominated in a foreign currency. Historically, foreign currency fluctuations have not had a material effect on our net financial results. However, fluctuations in foreign currency exchange rates could have a significant negative impact on our financial results in the future.

Economic and credit market uncertainty could interrupt our access to capital markets, borrowings, or financial transactions to hedge certain risks, which could adversely affect our financial condition.

To date, we have been able to access debt and equity financing that has allowed us to complete acquisitions, make investments in growth opportunities and fund working capital requirements. In addition, we enter into financial transactions to hedge certain risks, including foreign exchange and interest rate risk. Our continued access to capital markets, the stability of our lenders under our Senior Secured Credit Facility and their willingness to support our needs, and the stability of the parties to our financial transactions that hedge risks are essential for us to meet our current and long-term obligations, fund operations, and fund our strategic initiatives. An interruption in our access to external financing or financial transactions to hedge risk could affect our business prospects and financial condition.

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

The efficient operation of our business is dependent on our information technology ("IT") systems. Accordingly, we rely upon the capacity, reliability and security of our IT hardware and software infrastructure and our ability to expand and update this infrastructure in response to our changing needs. Despite our implementation of security measures, our systems are vulnerable to damages from computer viruses, natural disasters, incursions by intruders or hackers, failures in hardware or software, power fluctuations, cyber terrorists and other similar disruptions. The failure of our IT systems to perform as anticipated for any reason or any significant breach of security could disrupt our business and result in numerous consequences, including reduced effectiveness and efficiency of operations, inappropriate disclosure of confidential information, increased overhead costs and loss of important information, which could have a material effect on our business and results of operations. In addition, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

Risks Related To Our Industries

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

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

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

In response to perceived increases in healthcare costs in recent years, there have been and continue to be proposals by the Obama administration, members of Congress, state governments, regulators and third-party payors to control these costs and, more generally, to reform the U.S. healthcare system. Health Care Reform imposes significant new taxes on medical device manufacturers. In 2015, the medical device tax increased our cost of sales by $0.6 million. Beginning on January 1, 2016, the medical device excise tax will be suspended through December 31, 2017, but if this suspension is not continued or made permanent thereafter, the medical device excise tax will be automatically reinstated starting on January 1, 2018 and would result in a significant increase in the tax burden on our industry and which could have a material negative impact on our financial condition, results of operations and our cash flows.

Other elements of Health Care Reform such as comparative effectiveness research, an independent payment advisory board, payment system reforms including shared savings pilots and other provisions could meaningfully change the way healthcare is developed and delivered, and may materially adversely impact numerous aspects of our business, results of operations and financial condition.

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

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

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

Our international operations expose us to legal and regulatory risks, which could have a material effect on our business.

Our profitability and international operations are, and will continue to be, subject to risks relating to changes in foreign legal and regulatory requirements. In addition, our international operations are governed by various U.S. laws and regulations, including the Foreign Corrupt Practices Act ("FCPA") and other similar laws that prohibit us and our business partners from making improper payments or offers of payment to foreign governments and their officials and political parties for the purpose of obtaining or retaining business. Any alleged or actual violations of these regulations may subject us to government scrutiny, severe criminal or civil sanctions and other liabilities and could negatively affect our business, reputation, operating results, and financial condition.

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

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

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

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

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

Sales of our products into the energy market depends upon the condition of the oil and gas industry. Currently, oil and natural gas prices have been subject to significant fluctuation and the oil and gas exploration and production industry has historically been cyclical, and it is likely that oil and natural gas prices will continue to fluctuate in the future. The current and anticipated prices of oil and natural gas influence the oil and gas exploration and production business and are affected by a variety of political and economic factors, including worldwide demand for oil and natural gas, worldwide and domestic supplies of oil and natural gas, the ability of the Organization of Petroleum Exporting Countries ("OPEC") to set and maintain production levels and pricing, the level of production of non-OPEC countries, the price and availability of alternative fuels, political stability in oil producing regions and the policies of the various governments regarding exploration and development of their oil and natural gas reserves. A change in the oil and gas exploration and production industry or a reduction in the exploration and production expenditures of oil and gas companies, such as has occurred during 2015, could cause our energy market revenues to decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive office and headquarters is located in Frisco, Texas, in a leased facility. As of January 1, 2016, we operated 35 facilities in the U.S., 7 in Europe, 4 in Central and South America, and 2 in Asia. Of this amount, 33 were leased and 15 were owned. We occupy over 2.5 million square feet of manufacturing and research, development, and engineering space worldwide. We believe the facilities we operate and their equipment are effectively utilized, well maintained, generally are in good condition, and will be able to accommodate our capacity needs to meet current levels of demand. We continuously review our anticipated requirements for facilities and, on the basis of that review, may from time to time acquire additional facilities and/or dispose of existing facilities. The acquisition of Lake Region Medical has significantly expanded our global manufacturing footprint. This increased scope and scale presents a tremendous opportunity to rationalize our manufacturing footprint across both the legacy Greatbatch and legacy Lake Region Medical facilities to achieve our cost savings and synergies.

ITEM 3. LEGAL PROCEEDINGS

In April 2013, the Company commenced an action against AVX Corporation and AVX Filters Corporation (collectively “AVX”) alleging that AVX had infringed the Company’s patents by manufacturing and selling filtered feedthrough assemblies used in implantable pacemakers and cardioverter defibrillators that incorporate the Company’s patented technology. On January 26, 2016, a jury in the United States District Court for the District of Delaware returned a verdict finding that AVX infringed two Greatbatch patents and awarded Greatbatch $37.5 million in damages. The finding is subject to post-trial proceedings, including a possible appeal by AVX.

In January 2015, Lake Region Medical was notified by the New Jersey Department of Environmental Protection (“NJDEP”) of the NJDEP’s intent to revoke a no further action determination made by the NJDEP in favor of Lake Region Medical in 2002 pertaining to a property on which a subsidiary of Lake Region Medical operated a manufacturing facility in South Plainfield, New Jersey beginning in 1971. Lake Region Medical sold the property in 2004 and vacated the facility in 2007. We are cooperating with the NJDEP and believe the NJDEP’s notice of intent to revoke is unwarranted. In December 2014, the current owner of the property commenced litigation against Lake Region Medical, one of its executive officers and other unrelated third parties, alleging that the defendants caused or contributed to alleged groundwater contamination beneath the property. The Company believes these allegations are without merit.

We are party to various other legal actions arising in the normal course of business. A description of pending legal actions against the Company is set forth in Note 15 “Commitments and Contingencies” of the Notes to Consolidated Financial Statements contained in Item 8 of this report. Other than as discussed in Note 15, we do not believe that the ultimate resolution of any pending legal actions will have a material effect on our consolidated results of operations, financial position or cash flows. However, litigation is subject to inherent uncertainties and there can be no assurance that any pending legal action, which we currently believe to be immaterial, does not become material in the future.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

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

	High	Low	Close
2014			
First Quarter	$47.78	$40.02	$44.85
Second Quarter	50.65	43.65	49.58
Third Quarter	51.64	42.23	43.56
Fourth Quarter	50.69	43.42	48.66
2015			
First Quarter	$58.18	$47.36	$56.72
Second Quarter	56.86	50.57	53.50
Third Quarter	63.19	47.85	58.43
Fourth Quarter	61.06	49.00	52.50

As of March 1, 2016, there were approximately 168 record holders of the Company's common stock. The Company stock account within our 401(k) plan is considered one record holder for the purposes of this calculation. We have not paid cash dividends and currently intend to retain any earnings to further develop and grow our business.

PERFORMANCE GRAPH

The following graph compares, for the five year period ended January 1, 2016, the cumulative total stockholder return for Greatbatch, Inc., the S&P SmallCap 600 Index, and the Hemscott Peer Group Index. The Hemscott Peer Group Index includes approximately 133 comparable companies included in the Hemscott Industry Group 520 Medical Instruments & Supplies and 521 Medical Appliances & Equipment. The graph assumes that $100 was invested on December 31, 2010 and assumes reinvestment of dividends. The stock price performance shown on the following graph is not necessarily indicative of future price performance.

Company/Index	12/31/2010	12/30/2011	12/28/2012	1/3/2014	1/2/2015	1/1/2016
Greatbatch, Inc.	$100.00	$91.51	$94.78	$181.37	$201.49	$217.39
S&P Smallcap 600	100.00	101.02	117.51	166.05	175.61	172.14
Hemscott Peer Group Index	100.00	103.76	119.22	156.42	187.48	200.34

ITEM 6. SELECTED FINANCIAL DATA

The following table provides selected financial data for the periods indicated. You should read this data along with Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Item 8 “Financial Statements and Supplementary Data” appearing elsewhere in this report. The consolidated statement of operations data and the consolidated balance sheet data for the fiscal years indicated have been derived from our consolidated financial statements and related notes (in thousands, except per share amounts):

	Years Ended				
	Jan. 1 2016 [1][2]	Jan. 2 2015 [1][2]	Jan. 3, 2014 [1]	Dec. 28, 2012 [1][2]	Dec. 30, 2011 [1][2]
Statement of Operations Data:					
Sales	$800,414	$687,787	$663,945	$646,177	$568,822
Net income (loss)	(7,594)	55,458	36,267	(4,799)	33,122
Earnings (loss) per share					
Basic	$(0.29)	$2.23	$1.51	$(0.20)	$1.42
Diluted	(0.29)	2.14	1.43	(0.20)	1.40
Balance Sheet Data:					
Working capital	$360,764	$242,022	$190,731	$176,376	$170,907
Total assets[3]	2,982,136	955,122	889,629	889,611	880,502
Long-term obligations[3]	1,917,671	233,099	255,772	316,994	319,170

(1) From 2011 to 2015, we recorded material charges in Other Operating Expenses, Net, primarily related to our cost savings and consolidation initiatives and our acquisitions. Additional information is set forth in Note 13 “Other Operating Expenses, Net” of the Notes to Consolidated Financial Statements contained in Item 8 of this report.

(2) On October 27, 2015, August 12, 2014, February 16, 2012, and December 15, 2011, we acquired Lake Region Medical Holdings, Inc., Centro de Construcción de Cardioestimuladores del Uruguay, NeuroNexus Technologies, Inc., and Micro Power Electronics, Inc., respectively. This data includes the results of operations of these companies subsequent to their acquisition. Additional information is set forth in Note 2 “Acquisitions” of the Notes to Consolidated Financial Statements contained in Item 8 of this report. Additionally, in connection with our acquisition of Lake Region Medical we issued approximately $1.8 billion of long-term debt. Additional information is set forth in Note 9 “Debt” of the Notes to Consolidated Financial Statements contained in Item 8 of this report.

(3) In April 2015, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.” This ASU requires that debt issuance costs be presented as a direct reduction to the carrying amount of the related debt in the balance sheet rather than as a deferred charge, consistent with the presentation of discounts on debt. ASU 2015-15, “Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs associated with Line-of-Credit Arrangements,” was issued in August 2015 to clarify that the U.S. Securities and Exchange Commission staff would not object to an entity deferring and presenting debt issuance costs related to a line-of-credit arrangement as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement.

As permitted, during the fourth quarter of 2015, we elected to early adopt these ASUs and elected to retrospectively apply this guidance. As a result, the Company has reclassified all deferred debt issuance costs associated with our term-debt from Other Assets to Long-Term Debt in the Consolidated Balance Sheets. Additional information is set forth in Note 1 “Summary of Significant Accounting Policies” of the Notes to Consolidated Financial Statements contained in Item 8 of this report.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

YOU SHOULD READ THE FOLLOWING DISCUSSION AND ANALYSIS OF OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS IN CONJUNCTION WITH OUR FINANCIAL STATEMENTS AND RELATED NOTES INCLUDED IN PART II, ITEM 8 "FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA" OF THIS REPORT.

Our Business

- Our business
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- Fiscal 2014 compared with fiscal 2013
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- Litigation
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Our Business

In the fourth quarter of 2015, we acquired all of the outstanding common stock of Lake Region Medical Holdings, Inc. ("Lake Region Medical"). As a result, we now have three reportable segments: Greatbatch Medical, QiG Group ("QiG"), and Lake Region Medical. In February 2016, we announced that our Board of Directors has approved the spin-off of a portion of our QiG segment (the "Spin-off"). The Spin-off is expected to be completed in March 2016. As a result of the Lake Region Medical acquisition and the pending Spin-off, we are reevaluating our operating and reporting segments, which is expected to be finalized in 2016 once our corporate and management reporting structure realignment is completed. Additional information is set forth in Note 19 "Business Segment, Geographic and Concentration Risk Information" of the Notes to Consolidated Financial Statements contained in Item 8 of this report.

Simultaneous with the close of the Lake Region Medical acquisition, we also announced our intention to rename the combined entity Integer Holdings Corporation ("Integer"). Integer is defined as complete, whole, and comprehensive, and represents the joining of Greatbatch and Lake Region Medical as well as the combined company's product and service offerings provided to customers. The new name is subject to Greatbatch stockholder approval at our May 2016 annual meeting.

Greatbatch Medical designs and manufactures products where we either own the intellectual property or have unique manufacturing and assembly expertise. These products include medical devices and components for the cardiac, neuromodulation, orthopaedics, portable medical, vascular and energy markets among others. The Greatbatch Medical

segment also offers value-added assembly and design engineering services for medical devices that utilize its component products.

The QiG segment focuses on the design and development of medical device systems and components. QiG is in the process of developing applications for its neurostimulation technology platform for emerging indications such as spinal cord stimulation (“SCS”), sacral nerve stimulation (“SNS”), and deep brain stimulation (“DBS”), among others. QiG’s Algostim, LLC

("Algostim") subsidiary is focused on the development and commercialization of its Algovita SCS system ("Algovita"), the first application of its neurostimulation technology platform, which received PMA approval in the fourth quarter of 2015. QiG's PelviStim LLC ("PelviStim") subsidiary is focused on the commercialization of QiG's neurostimulation technology platform for SNS. The QiG segment also includes NeuroNexus Technologies, Inc. ("NeuroNexus"), and Centro de Construcción de Cardioestimuladores del Uruguay ("CCC"). The Spin-off is expected to consist of QiG Group LLC and its subsidiaries Algostim, PelviStim and NeuroNexus. The operations of CCC and certain other existing QiG research and development capabilities will be retained and not included as part of the Spin-off.

QiG revenue includes sales of neural interface technology, components and systems to the neuroscience and clinical markets from NeuroNexus, a limited release of Algovita in Europe, and CCC sales of various medical device products such as implantable pulse generators, programmer systems, battery chargers, patient wands and leads to medical device companies. Once the medical devices developed by CCC reach significant production levels, the responsibility for manufacturing these products may be transferred to Greatbatch Medical. After the pending Spin-off is completed, our design and development of complete medical device systems will be completed by our combined teams in Greatbatch Medical, Lake Region Medical, and CCC.

Lake Region Medical has operated as a segment for Greatbatch since it was acquired during the fourth quarter of 2015. This segment specializes in the design, development, and manufacturing of products across the medical component and device spectrum, primarily serving the cardio, vascular and advanced surgical markets. Lake Region Medical offers fully integrated outsourced manufacturing, regulatory and engineering services, contract manufacturing, finished device assembly services, original device development, and supply chain management to its customers, who are located worldwide. This segment is dedicated to providing our customers with reliable, high-quality, cost-efficient, integrated outsourced solutions in the medical device space.

Our Acquisitions

On October 27, 2015, we acquired all of the outstanding common stock of Lake Region Medical, headquartered in Wilmington, MA. Lake Region Medical is a manufacturer of interventional and diagnostic wire-formed medical devices and components specializing in minimally invasive devices for cardiovascular, endovascular, and neurovascular applications. This acquisition has added scale and diversification to enhance customer access and experience by providing a comprehensive portfolio of technologies. The operating results of Lake Region Medical were included in our Lake Region Medical segment from the date of acquisition. The aggregate purchase price of Lake Region Medical including debt assumed was $1.77 billion, which was funded primarily through a new senior secured credit facility and the issuance of senior notes. Total assets acquired from Lake Region Medical were $2.1 billion. Total liabilities assumed from Lake Region Medical were $1.3 billion. For 2015, Lake Region Medical added approximately $138.6 million to our revenue and increased our net loss by $17.4 million.

On August 12, 2014, we purchased all of the outstanding common stock of CCC, headquartered in Montevideo, Uruguay. CCC is an active implantable neuromodulation medical device systems developer and manufacturer that produces a range of medical devices including implantable pulse generators, programmer systems, battery chargers, patient wands and leads. This acquisition allows us to more broadly partner with medical device companies, complements our core discrete technology offerings, and enhances our medical device innovation efforts. The operating results of CCC were included in our QiG segment from the date of acquisition. The aggregate purchase price of CCC was $19.8 million, which we funded with cash on hand. Total assets acquired from CCC were $26.2 million. Total liabilities assumed from CCC were $6.4 million. For 2014, CCC added approximately $5.8 million to our revenue and increased our net income by $1.2 million.

Going forward, we will continue to evaluate certain acquisition opportunities to either enhance our top and bottom line growth trajectory, and/or expand our pipeline technologies. Our strategic criteria for these acquisitions is that they should drive expansion in our core markets, allow us to enter adjacent growth markets, are focused on proprietary technology, can be tightly integrated into our operating base, and will enhance our return on invested capital.

Our Customers

Our products are designed to provide reliable, long-lasting solutions that meet the evolving requirements and needs of our customers. The nature and extent of our selling relationships with each customer are different in terms of breadth

of products purchased, purchased product volumes, length of contractual commitment, ordering patterns, inventory management, and selling prices.

Our Greatbatch Medical and Lake Region Medical customers include large multi-national original equipment manufacturers (“OEMs”) and their subsidiaries such as Abbott Labs, Biotronik, Boehringer Ingelheim, Boston Scientific, Cyberonics, Halliburton Company, Johnson & Johnson, Medtronic, Nevro Corp., Philips Healthcare, Smith & Nephew, Sorin Group, St. Jude Medical, Stryker, and Zimmer Biomet. During 2015, Biotronik, Johnson & Johnson, Medtronic, and St. Jude Medical collectively accounted for 52% of our total sales.

QiG customers include numerous scientists, hospitals, and universities throughout the world who perform research for the neuroscience and clinical markets and a limited distributor in Europe. Additionally, CCC's customers include various research companies and institutes and early stage medical device companies.

Use of Non-GAAP Financial Information

In addition to our results reported in accordance with generally accepted accounting principles ("GAAP"), we provide adjusted net income, adjusted earnings per diluted share, earnings before interest taxes depreciation and amortization ("EBITDA"), adjusted EBITDA and organic constant currency sales growth rates. Adjusted net income and adjusted earnings per diluted share consist of GAAP amounts adjusted for the following to the extent occurring during the period: (i) acquisition-related charges, (ii) amortization of intangible assets (iii) facility consolidation, optimization, manufacturing transfer and system integration charges, (iv) asset write-down and disposition charges, (v) charges in connection with corporate realignments or a reduction in force, (vi) certain litigation expenses, charges and gains, (vii) unusual or infrequently occurring items, (viii) gain/loss on cost and equity method investments, (ix) for 2013, design verification testing ("DVT") expenses in connection with developing our neuromodulation platform; (x) the income tax (benefit) related to these adjustments and (xi) certain tax items related to the Federal research and development tax credit which are outside the normal benefit received for the period. Adjusted earnings per diluted share are calculated by dividing adjusted net income by diluted weighted average shares outstanding. Adjusted EBITDA consists of GAAP net income (loss) plus (i) the same adjustments as listed above except for items (x), and (xi), (ii) GAAP stock-based compensation, interest expense, and depreciation, (iii) GAAP provision (benefit) for income taxes and (iv) cash gains received from cost and equity method investments. To calculate organic constant currency sales growth rates, which exclude the impact of changes in foreign currency exchange rates, as well as the impact of any acquisitions or divestitures of product lines on sales growth rates, we convert current period sales from local currency to U.S. dollars using the previous periods' foreign currency exchange rates and exclude the amount of sales acquired/divested during the period from the current/previous period amounts, respectively. We believe that the presentation of adjusted net income, adjusted diluted earnings per share, EBITDA, adjusted EBITDA and organic constant currency sales growth rates provides important supplemental information to management and investors seeking to understand the financial and business trends relating to our financial condition and results of operations.

CEO View

2015 marked the completion of three major strategic initiatives for the Company. First, we received PMA approval from the FDA for our Algovita SCS system. This is the first ever PMA device developed at Greatbatch, demonstrating our extensive capabilities in bringing critical medical device technology to the market addressing the needs of patients worldwide. The FDA approval of the Algovita device will facilitate the pending spin-off of Nuvectra, which is targeted for completion in March, 2016. Second, we completed the integration of CCC Medical Devices, which has provided a considerable return since being acquired. Third, we closed on the acquisition of Lake Region Medical on October 27. The deal significantly expands our capabilities in the Cardiac, Vascular and Orthopaedic markets and also extends our reach into the Advanced Surgical market with a portfolio of minimally invasive devices used in laparoscopic and drug delivery applications. Completing the Lake Region acquisition marked the achievement of a key strategic milestone. The combination of the two companies under the new Integer brand establishes the Company as the premier global Medical Device Outsource partner, with the scale and breadth of capabilities to meet the demands of our customers and the patients they serve. Our primary focus in 2016 will be to integrate our cultures and operations into one single integrated entity. Thus far the merger of the two organizations has gone extremely well and we are confident that we will be able to leverage the combined expertise to accelerate our growth over the long term.

Strategic and Financial Overview

The overriding long-term strategic objectives that we have been operating under are centered around four strategic imperatives: 1) Organic Growth; 2) Margin Expansion; 3) Medical Device Systems; and 4) Targeted Acquisitions.

Organic Growth – One of our overriding long-term strategic objectives is to profitably grow our company organically. Fiscal year 2015 sales of $800.4 million increased 16% in comparison to the prior year period. 2015 revenue includes two months of operations from Lake Region Medical, which added $138.6 million to sales. Additionally, sales for the year were impacted by foreign currency exchange rate fluctuations, which reduced sales by approximately $14.5

million compared to the prior year. On an organic constant currency basis, 2015 sales decreased 2% over the prior year primarily due to a decline in Electrochem sales caused by the slowdown in the energy markets. Despite this decline in legacy Greatbatch sales, we were able to improve our adjusted diluted EPS by 1% through lower performance-based compensation as well as on-going continuous improvement projects.

Fiscal year 2014 sales of $687.8 million represented a 4% increase over 2013. After adjusting for the $5.8 million of revenue added from our acquisition of CCC in August 2014, as well as the $1 million positive impact of foreign currency exchange rates, sales increased 3% in 2014 due to double digit organic constant currency growth from our orthopaedic (12%) and vascular (22%) product lines due to increased sales force productivity, marketing efforts, and market growth. Partially offsetting

these increases were declines in our portable medical and cardiac/neuromodulation product lines due to our strategic shift in 2013 to refocus our portable medical product line offerings to products that have higher profitability, and the impact of several customer inventory reduction initiatives and the end of life impact of legacy products in our cardiac product line. Similar to our revenue growth, our adjusted diluted EPS grew 16% from 2013 to 2014 due to our increased sales and operational leverage.

Going forward, growth in our cardiac/neuromodulation product line will continue to be negatively impacted by the end of life on legacy products, as well as continued pressure from our customer's diversification and cost reduction initiatives. We also expect our Electrochem product line will continue to be negatively impacted by the downturn in the energy markets through the end of 2016.

Margin Expansion – We have a longstanding history of operational excellence, which is one of our core competencies. This, when combined with our medical device systems and our organic sales growth strategies, is expected to continue to drive both gross and operating margin expansion.

This strategic imperative was evident in our 2015 and 2014 results as our gross profit as a percentage of sales ("Gross Margin"), excluding the impact of the Lake Region Medical acquisition, increased 90 basis points and 60 basis points, respectively. The 2015 increase was primarily due to lower performance-based compensation as well as on-going continuous improvement projects. Our 2014 Gross Margin expansion primarily resulted from our operational leverage, due to higher sales volumes, and our various productivity initiatives.

Excluding the impact of the Lake Region Medical acquisition ($12.6 million), the full year impact of CCC Medical Devices ($2.2 million), as well as higher legal fees in connection with intellectual property ("IP") related litigation ($1.9 million) selling, general and administrative expenses ("SG&A") for 2015 decreased $4.8 million. This decrease was primarily driven by lower performance-based compensation ($4.1 million), as well as cost savings from our various consolidation initiatives. For 2014, SG&A expenses increased 3% compared to 2013 due to our increased investment in sales and marketing resources. Partially offsetting these increases were the cost savings generated as a result of our various cost savings and consolidation initiatives. See "Cost Savings and Consolidation Efforts" contained in this item for further details on these initiatives.

Excluding the impact of the Lake Region Medical acquisition, which added $1.8 million to research, development and engineering costs, net ("RD&E"), RD&E increased $1.4 million primarily due to lower customer cost reimbursements partially offset by lower performance-based compensation. For 2014, RD&E expenses decreased 8% compared to 2013 as a result of a lower level of design verification testing ("DVT") costs incurred in connection with the development of our SCS system.

We invest substantial resources in integrating our acquisitions and streamlining our operations in order to drive organic growth and profitability. This strategy was evident during 2015 and 2014 as we announced several initiatives to invest in capacity and capabilities and consolidate our manufacturing footprint. As a result, other operating expenses, net ("OOE") totaled $66.5 million, $15.3 million and $15.8 million for 2015, 2014 and 2013, respectively. OOE for 2015 also included $38.3 million of transaction, professional and consulting fees incurred in connection with the Lake Region Medical acquisition and the Spin-off. As we move forward, investing in our operations will continue to be critical to the success of our strategic imperative to drive margin expansion and attain the stated synergy goals in connection with the Lake Region Medical acquisition. See "Cost Savings and Consolidation Efforts" contained in this item for further details on these initiatives.

The net result of the above is that, GAAP and adjusted diluted earnings per share ("EPS") for fiscal year 2015 were a loss of $0.29 and earnings of $2.90, respectively, compared to earnings of $2.14 and $2.86, respectively, for 2014 and earnings of $1.43 and $2.47 for 2013. The Company estimates that the Lake Region Medical acquisition was approximately 2% dilutive to 2015 adjusted diluted EPS, and that excluding this impact, adjusted diluted EPS would have increased approximately 3% in comparison to 2014.

Summary - In 2006 we launched our medical device strategy, and over the course of the next nine years we have transformed our Company from a $320 million primarily CRM components company to a $1.4 billion fully integrated medical device company. We acquired 10 companies over this period and successfully integrated these businesses into one unified company. With our proven track record of integrating organizations, we are confident that our new Integer

leadership team, along with our 10,000 associates, have the drive and skill-set to advance our medical device strategy and create long term value for our shareholders.

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

	Year Ended January 1, 2016		January 2, 2015		January 3, 2014	
	Net Income (Loss)	Per Diluted Share	Net Income	Per Diluted Share	Net Income	Per Diluted Share
Net income (loss) as reported	$(7,594)	$(0.29)	$55,458	$2.14	$36,267	$1.43
Adjustments:						
Amortization of intangibles[a][c]	12,273	0.45	9,637	0.37	9,105	0.36
Inventory step-up amortization (COS)[c]	15,605	0.57	195	0.01	—	—
IP related litigation (SG&A)[b][c]	2,871	0.11	1,626	0.06	179	0.01
Medical device DVT expenses (RD&E)[c][d]	—	—	—	—	3,765	0.15
Consolidation and optimization expenses (OOE)[c][e]	21,158	0.77	6,567	0.25	10,602	0.42
Acquisition and integration expenses (income) (OOE)[c][f]	25,885	0.95	61	—	(326)	(0.01)
Asset dispositions, severance and other (OOE)[c][g]	5,099	0.19	3,463	0.13	997	0.04
Lake Region Medical transaction costs (interest expense)[c][h]	6,151	0.23	—	—	—	—
(Gain) loss on cost and equity method investments, net (other income, net)[c][i]	(2,177)	(0.08)	(2,841)	(0.11)	451	0.02
CSN conversion option discount and deferred fee acceleration amortization[c]	—	—	—	—	3,007	0.12
R&D Tax Credit[j]	—	—	—	—	(1,600)	(0.06)
Adjusted net income and diluted EPS[k]	$79,271	$2.90	$74,166	$2.86	$62,447	$2.47
Adjusted diluted weighted average shares[l]	27,304		25,975		25,323	

(a) Given our acquisition of Lake Region Medical in the fourth quarter of 2015 and in order to present our financial results in a form more comparable to other medical device companies and less acquisitive companies, we began excluding intangible asset amortization for purposes of calculating adjusted net income and adjusted diluted EPS. Prior period adjusted amounts have been recalculated to exclude intangible amortization for all periods presented.

(b) In 2013, we filed suit against AVX Corporation alleging they were infringing on our intellectual property. Given the complexity and significant costs incurred pursuing this litigation, during the second quarter of 2015, we began excluding these litigation expenses from adjusted amounts. Total costs incurred in connection with this litigation in 2015 was $4.4 million pre-tax. This matter proceeded to trial during the first quarter of 2016 and a federal jury awarded Greatbatch $37.5 million in damages. Prior period adjusted amounts have been recalculated to exclude these costs for all periods presented.

(c) Net of tax amounts computed using a 35% U.S., Mexico, and France statutory tax rate, a 25% Uruguay statutory tax rate, and a 12.5% Ireland statutory tax rate. Expenses that are not deductible for tax purposes (i.e. permanent tax differences) are added back at 100%.

(d) As a result of our premarket approval ("PMA") submission to the Food and Drug Administration ("FDA") for Algovita in December 2013, we no longer exclude DVT costs associated with this system from adjusted operating income and adjusted diluted EPS.

(e) During 2015 and 2014, we incurred costs primarily related to the transfer of our Beaverton, OR portable medical and Plymouth, MN vascular manufacturing operations to Tijuana, Mexico. Additionally, with the acquisition of Lake Region Medical, these costs now include expenses incurred in connection with the closure of Lake Region Medical's Arvada, Colorado site and the consolidation of its two Galway, Ireland sites initiated by Lake Region

Medical in 2014. During 2013, we incurred costs related to the rationalization of our orthopaedic footprint as well as in connection with our operating unit realignment.

(f) During 2015, we incurred $33.1 million pre-tax in costs related to the acquisition of Lake Region Medical and the integration of CCC Medical Devices. During 2014, we incurred costs related to the integration of CCC Medical Devices. During 2013, we realized income related to the contingent consideration recorded in connection with the acquisition of NeuroNexus.

(g) 2015 costs primarily include $6.0 million pre-tax in legal and professional fees incurred in connection with the pending spin-off of Nuvectra. 2014 costs primarily include costs in connection with our business reorganization to realign our contract manufacturing operations.

(h) We recorded $9.5 million pre-tax for 2015 in transaction costs (i.e. debt commitment fees, interest rate swap termination costs, debt extinguishment charges) in connection with our acquisition of Lake Region Medical.

(i) Pre-tax amount is gain of $3.4 million for 2015, a gain of $4.4 million for 2014, and a loss of $0.7 million for 2013.

(j) The 2015 Federal R&D tax credit was enacted during the fourth quarter of 2015 and the 2014 Federal R&D tax credit was enacted in the fourth quarter of 2014. Amounts assume that the tax credit was effective at the beginning of the year for 2015 and 2014. The 2013 and 2012 Federal R&D tax credit was enacted and recognized in 2013. The 2012 Federal R&D tax credit amount is excluded for adjusted diluted EPS purposes.

(k) The per share data in this table have been rounded to the nearest $0.01 and therefore may not sum to the total.

(l) Full year 2015 adjusted diluted weighted average shares includes 941,000 shares of dilution related to outstanding equity awards that were not dilutive for GAAP EPS purposes.

In connection with the Lake Region Medical acquisition, we incurred $1.8 billion of additional indebtedness. As of January 1, 2016, our debt service obligations, comprised of principal and interest, for 2016 are estimated to be approximately $130 million. As a result of this increase in our outstanding indebtedness, demands on our cash resources have increased significantly. Accordingly, during 2015 we began presenting EBITDA and adjusted EBITDA in our SEC reports in order to present a measure of our cash generation, which is important to holders of our public debt, and to be more consistent with how other medical device companies report results. These measures are generally consistent with how we calculate adjusted EBITDA for our debt covenant ratios.

A reconciliation of net income (loss) as reported to EBITDA and adjusted EBITDA is as follows (dollars in thousands):

	Year Ended		
(dollars in thousands)	January 1, 2016	January 2, 2015	January 3, 2014
Net income (loss) as reported	$(7,594)	$55,458	$36,267
Interest expense	33,513	4,252	11,261
Provision (benefit) for income taxes	(8,106)	21,121	12,571
Depreciation	27,136	23,320	22,799
Amortization	17,496	13,877	13,167
EBITDA	62,445	118,028	96,065
Inventory step-up amortization	22,986	260	—
IP related litigation	4,417	2,502	276
Stock-based compensation expense	9,287	12,893	12,965
Medical device DVT expenses	—	—	5,793
Consolidation and optimization expenses	26,393	11,188	14,758
Acquisition and integration expenses (income)	33,449	3	(502)
Asset dispositions, severance and other	6,622	4,106	1,534
Noncash (gain) loss on cost and equity method investments	275	(1,190)	694
Adjusted EBITDA	$165,874	$147,790	$131,583
Adjusted EBITDA as a % of sales	20.7%	21.5%	19.8%

The changes in adjusted EBITDA for fiscal year 2015 versus fiscal year 2014 and 2013 are the result of the same factors that drove the changes in adjusted diluted EPS as discussed above.

Medical Device Systems – In 2008, we began evolving our product offerings to include the development of complete medical device systems in order to raise the growth and profitability profile of our Company. This medical device systems strategy is being facilitated through QiG and leverages the component technology of Greatbatch Medical.

More specifically, this strategy includes the development of a neuromodulation platform that can be used to support multiple devices. Algovita, the first application of QiG's neurostimulation technology platform, is indicated for the treatment of chronic pain of the trunk and limbs.

Algovita received CE Mark approval during 2014 and PMA approval during the fourth quarter of 2015. QiG anticipates launching Algovita commercially in the United States during the first half of 2016. Net medical device costs incurred by QiG were $25.9 for 2015 compared to $23.3 million for 2014 and $30.5 million for 2013. Medical device costs for 2013 include $5.8 million of DVT costs incurred in connection with the development of Algovita. After the pending Spin-off is completed, our design and development of complete medical device systems will be completed by the combined teams in Greatbatch Medical, Lake Region Medical, and CCC.

Targeted Acquisitions – The results for 2015, 2014 and 2013 include the impact of our acquisition of Lake Region Medical in October 2015, CCC in August 2014, and NeuroNexus in February 2012. Going forward, we will continue to evaluate certain acquisition opportunities to either enhance our top and bottom line growth trajectory, and/or expand our pipeline technologies. Our strategic criteria for these acquisitions is that they should drive expansion in our core markets, allow us to enter adjacent growth markets, focus on proprietary technology, can be tightly integrated into our operating base, and enhance our return on invested capital.

Cost Savings and Consolidation Efforts

In 2015, 2014, and 2013, we recorded charges in OOE related to various cost savings and consolidation initiatives. These initiatives were undertaken to improve our operational efficiencies and profitability the most significant of which are as follows (dollars in millions):

Initiative	Expected Expense	Expected Capital	Expected Annual Cost Savings	Expected Completion Date
2014 investments in capacity and capabilities	$34 - $39	$25 - $28	> $20	2016
Orthopaedic facilities optimization	$45 - $48	$30 - $35	$10 - $15	2016
Legacy Lake Region Medical consolidations	$13 - $15	$4 - $5	$8 - $9	2016

See Note 13 “Other Operating Expenses, Net” of the Notes to Consolidated Financial Statements contained in Item 8 of this report for additional information about the timing, cash flow impact, and amount of future expenditures for these initiatives. We continually evaluate our operating structure in order to maximize efficiencies and drive margin expansion. In 2016, OOE is expected to be comparable to the 2015 levels primarily due to the integration and consolidation efforts in connection with the Lake Region Medical acquisition. We expect to achieve $25 million in annual savings for 2016 from the Lake Region Medical acquisition and have a long-term goal of at least $60 million in annual savings, which is expected to be achieved over the next three years.

Product Development

Greatbatch Medical and Lake Region Medical

Our core business is well positioned because our OEM customers leverage our portfolio of intellectual property, and we continue to build a healthy pipeline of diverse medical technology opportunities. The combination of Greatbatch and Lake Region Medical brings together two highly complementary organizations that can provide a new level of industry leading capabilities and services to OEM customers while building value for shareholders. Through this transformative deal, we are at the forefront of innovating technologies and products that help change the face of healthcare, providing our customers with a distinct advantage as they bring complete systems and solutions to market. In turn, our customers will be able to accelerate patient access to life enhancing therapies. The newly combined company will be able to offer a substantially more comprehensive portfolio for customers utilizing the best technologies, providing a single point of support, and driving optimal outcomes. Some of the more significant product development opportunities Greatbatch Medical and Lake Region Medical are pursuing are as follows:

Product Line	Product Development Opportunities
Advanced Surgical, Orthopaedics, and Portable Medical	Developing a portfolio of single use products and instruments for the orthopaedics market.
	Developing a portfolio of wireless products for the portable medical and orthopaedic markets.
Cardio and Vascular	Developing a portfolio of catheter, wire-based, sensor and coating products for the cardio and vascular markets.
Cardiac/Neuromodulation	Developing next generation technology programs including Gen 2 Q_{HR} battery, next generation filtered feedthroughs, high voltage capacitors and vertically integrated lead solutions.
Electrochem	Developing power solutions to advance performance and reliability of battery packs in critical environments.

QiG

Through QiG, we can develop or assist our customers to develop complete medical devices. Algovita, our SCS system for the treatment of chronic pain of the trunk and limbs, is the first application of QiG's neurostimulation technology platform that was designed to target unmet clinical needs with a focus on safety and product differentiation for all user groups. This product received CE Mark approval in 2014, was approved by the United States Food and Drug Administration during 2015, and is expected to commercially launch in the United States during the first half of 2016. QiG is also working to develop additional medical device systems utilizing its neurostimulation platform in the fields of SNS and DBS. After the pending Spin-off is completed, our design and development of complete medical device systems will be completed by our combined teams in Greatbatch Medical, Lake Region Medical, and CCC. We are now able to more broadly partner with medical device companies, leveraging Greatbatch Medical's core components discrete technology, the design and manufacturing expertise of Lake Region Medical, and the full device capabilities of CCC which will enhance our medical device innovation efforts.

Government Regulation

The Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act (collectively "Health Care Reform") legislated broad-based changes to the U.S. healthcare system that could significantly impact our business operations and financial results, including higher or lower revenue, as well as higher employee medical costs and taxes. Health Care Reform imposes significant new taxes on medical device OEMs, which will result in a significant increase in the tax burden on our industry and which could have a material negative impact on our financial condition, results of operations and our cash flows. Beginning on January 1, 2016, the medical device excise tax was suspended through December 31, 2017, but if this suspension is not continued or made

permanent thereafter, the medical device excise tax will be automatically reinstated starting on January 1, 2018. Other elements of Health Care Reform such as comparative effectiveness research, an independent payment advisory board, payment system reforms including shared savings pilots and other provisions could meaningfully change the way healthcare is developed and delivered, and may materially impact numerous aspects of our business, results of operations and financial condition. Many significant parts of Health Care Reform will be phased in over the next several years and require further guidance and clarification in the form of regulations. The medical device tax increased our cost of sales by $0.6 million, $0.7 million, and $0.5 million in 2015, 2014 and 2013, respectively.

Our Collegeville, PA facility, which was acquired as part of the Lake Region Medical acquisition, is subject to two administrative consent orders entered into with the U.S. Environmental Protection Agency (the “EPA”), which require ongoing

groundwater treatment and monitoring at the site as a result of historic leaks from underground storage tanks. Upon approval by the EPA of our proposed post remediation care plan, which requires a continuation of the groundwater treatment and monitoring process at the site, we expect that the consent orders will terminate. During the first half of 2016, we expect a decision from the EPA on whether our post remediation care plan has been approved. The groundwater treatment process at our Collegeville facility consists of a groundwater extraction and treatment system and the performance of annual sampling of a defined set of groundwater wells as a means to monitor containment within approved boundaries.

Our Critical Accounting Estimates

The preparation of our consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect reported amounts and related disclosures. The methods, estimates, and judgments we use in applying our accounting policies have a significant impact on the results we report in our consolidated financial statements. Management considers an accounting estimate to be critical if (1) it requires assumptions to be made that were uncertain at the time the estimate was made; and (2) changes in the estimate or different estimates that could have been selected could have a material impact on our consolidated results of operations, financial position or cash flows. Our most critical accounting estimates are described below. We also have other policies that we consider key accounting policies, such as our policies for revenue recognition; however, these policies do not meet the definition of critical accounting estimates, because they do not generally require us to make estimates or judgments that are difficult or subjective.

Business Acquisitions and Intangible Assets

We account for acquired businesses using the acquisition method of accounting, which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective estimated fair values. The cost to acquire a company is allocated to the tangible and intangible assets of the acquired company and liabilities we assume based on estimates of their respective fair values at the date of acquisition. Any excess of the purchase price over the estimated fair values of the net identified tangible and intangible assets acquired is recorded as goodwill. The judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact our results of operations. Additionally, these estimates also form the basis of whether or not an impairment charge should be recorded. For these reasons, these estimates are considered to be critical accounting estimates.

Definite-lived intangible assets are amortized over the expected life of the asset. Goodwill and some of our intangible assets are considered non-amortizing intangible assets as they are expected to generate cash flows indefinitely. Goodwill and indefinite-lived intangible assets are not amortized but are required to be assessed for impairment on an annual basis or more frequently if certain indicators are present. Goodwill is evaluated for impairment at the reporting unit level, which is defined as an operating segment or one level below an operating segment. Definite-lived intangible assets are amortized over their estimated useful lives and are assessed for impairment if certain indicators are present.

Assumptions/Approach Used

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

We perform an annual review on the last day of each fiscal year, or more frequently if indicators of potential impairment exist, to determine if the recorded goodwill and other indefinite-lived intangible assets are impaired. We assess goodwill for impairment by comparing the fair value of our reporting units to their carrying value to determine if there is potential impairment. When evaluating goodwill for impairment, we may first perform an assessment of qualitative factors, referred to as the “step-zero” approach, to determine if the fair value of the reporting unit is more-likely-than-not greater than its carrying amount. If, based on the review of the qualitative factors, we determine it is more-likely-than-not that the fair value of the reporting unit is greater than its carrying value, the required two-step quantitative impairment test can be bypassed. If we do not perform a qualitative assessment or if the fair value of the reporting unit is more-likely-than-not less than its carrying value, we must perform the two-step quantitative impairment test, and calculate the estimated fair value of the reporting unit. If, based upon the two-step impairment test, it is determined that the fair value of a reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the implied fair value of the goodwill within the reporting unit is less than its

carrying value. Fair values for reporting units are determined based on the income and market approaches. Indefinite-lived intangible assets are evaluated for impairment by using the income approach. Definite-lived intangible assets are reviewed at least quarterly to determine if any conditions exist or a change in circumstances has occurred that would indicate impairment or a change in their remaining useful life.

We do not believe that the legacy Greatbatch goodwill allocated to our Greatbatch Medical and QiG segments are at risk of failing step one of future annual impairment tests unless operating conditions significantly deteriorate, given the results of our 2015 step zero qualitative analysis as well as the significant amount that our estimated fair value for these assets was in excess of their respective book values as of January 3, 2014, the date of our last step one goodwill impairment test. The goodwill allocated to our Lake Region Medical segment may be subject to future impairment if their actual operating results deteriorate from the results from that were expected when we performed the initial purchase price allocation. Examples of a significant deterioration in operating conditions, which could impact the valuation and/or result in an impairment of goodwill are as follows: for Greatbatch Medical and Lake Region Medical, the loss of one or more significant customers, technology obsolescence, product liability claims or significant manufacturing disruption, among others. For QiG, regulatory non-approval of new medical device systems, lack of market acceptance, discontinuation of significant development projects, technology obsolescence or failure of technology, among others.

Effect of Variation of Key Assumptions Used

The use of alternative valuation assumptions, including estimated cash flows and discount rates, and alternative estimated useful life assumptions could result in significant changes to our intangible asset fair value estimates. These changes in fair value estimates could impact the amount and timing of future intangible asset amortization expense and/or result in impairment losses.

As part of our 2015 step zero qualitative goodwill analysis, we made certain assumptions by evaluating factors including, but not limited to, macro-economic conditions, market and industry conditions, cost factors, competitive environment, share price fluctuations, results of the last impairment test, and the operational stability and the overall financial performance of the reporting units. We also make assumptions involving the projections of future revenues and expenses that impact the results of our step-zero impairment analysis. Significant changes in these estimates and assumptions could create future impairment losses to our goodwill. The assumptions used in our 2015 impairment analysis incorporate the forward-looking statements made in this Management’s Discussion and Analysis of Financial Condition and Results of Operations section.

For the last step one impairment test for QiG, which was performed as of January 3, 2014, the fair value for our QiG reporting unit was determined primarily through the use of the income approach. The projected cash flows used to determine the fair value of the QiG reporting unit were based upon internal revenue and expense projections, discount rates and probability of success factors based upon the stage of completion of the medical device projects within QiG. Revenue projections were assumed to increase for QiG as market share was garnered by its medical devices. As QiG products were in the clinical and development stage, projected market share penetration rates were assumed to grow from low single digits in the early years up to maximum market share penetration rates that ranged between 6% and 15%. The discounted cash flow analysis for QiG included a discount rate of 20% and probability of success factors ranging between 75% to 90%. The fair value calculation for QiG was corroborated with market data such as recent acquisitions for comparable companies, analyst reports and discussions with potential commercial partners of QiG.

For our indefinite-lived intangible assets, we make estimates of royalty rates ranging from 0.25% to 2.0%, future revenues and discount rates ranging from 9.5% to 11.5%. Significant changes in these estimates could create future impairments of these assets.

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

As a result of the Lake Region Medical acquisition and the expected Spin-off, the Company is reevaluating its operating and reporting segments, which is expected to be finalized in 2016 once the corporate and management

reporting structure realignment is completed. The way we allocate resources and evaluate our businesses determines the reporting unit level which goodwill is tested for impairment. Significant changes to these reporting units could create future impairments of goodwill.

As of January 1, 2016, we have $2.0 billion of intangible assets recorded on our consolidated balance sheet representing 67% of total assets. This includes $894.0 million of amortizing intangible assets, $90.3 million of indefinite-lived intangible assets and $1.0 billion of goodwill. A 1% change in the amortization of our intangible assets would change 2015 net income (loss) by approximately $0.1 million, or approximately $0.004 per diluted share.

Stock-based compensation

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

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

Assumptions/Approach Used

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

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

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

Stock-based compensation expense is recorded for those awards that are expected to vest, as well as market and nonmarket performance award considerations. Forfeiture estimates for determining appropriate stock-based compensation expense are estimated at the time of grant based on historical experience and demographic characteristics. Revisions are made to those estimates in subsequent periods if actual forfeitures differ from estimated forfeitures.

Effect of Variation of Key Assumptions Used

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

There is a high degree of subjectivity involved in selecting assumptions to be utilized to determine fair value and forfeiture assumptions. If factors change and result in different assumptions in future periods, the expense that we record for future grants may differ significantly from what we have recorded in the current period. Additionally, changes in performance of the Company and its stock price will affect the likelihood that performance-based targets are achieved and could materially impact the amount of stock-based compensation expense recognized.
A 1% change in our stock-based compensation expense would change 2015 net income (loss) by approximately $0.06 million, or approximately $0.002 per diluted share.

Inventories

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

Assumptions/Approach Used

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

Effect of Variation of Key Assumptions Used

Variations in methods or assumptions could have a material impact on our results. If our demand forecast for specific products is greater than actual demand and we fail to reduce manufacturing output accordingly, we could be required to record additional inventory write-downs or expense a greater amount of overhead costs, which would have a negative impact on our net income. As of January 1, 2016, we have $252.2 million of inventory recorded on our consolidated balance sheet representing 8% of total assets. A 1% write-down of our inventory would change 2015 net income (loss) by approximately $1.6 million, or approximately $0.06 per diluted share.

Tangible long-lived assets

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

Assumptions/Approach Used

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

Effect of Variation of Key Assumptions Used

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

As of January 1, 2016, we have $379.5 million of tangible long-lived assets recorded on our consolidated balance sheet representing 13% of total assets. A 1% write-down in our tangible long-lived assets would change 2015 net

income (loss) by approximately $2.5 million, or approximately $0.09 per diluted share.

Provision for income taxes

Our consolidated financial statements have been prepared using the asset and liability approach in accounting for income taxes, which requires the recognition of deferred income taxes for the expected future tax consequences of net operating losses, credits, and temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided on deferred tax assets if it is determined that it is more likely than not that the asset will not be realized.

Assumptions/Approach Used

In recording the provision for income taxes, management must estimate the future tax rates applicable to the reversal of temporary differences based upon the timing of expected reversal. Also, estimates are made as to whether taxable operating income in future periods will be sufficient to fully recognize any gross deferred tax assets. If recovery is not likely, we must increase our provision for income taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. Alternatively, we may make estimates about the potential usage of deferred tax assets that decrease our valuation allowances.

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

Effect of Variation of Key Assumptions Used

Changes could occur that would materially affect our estimates and assumptions regarding deferred taxes. Changes in current tax laws and tax rates could affect the valuation of deferred tax assets and liabilities, thereby changing the income tax provision. Also, significant declines in taxable income could materially impact the realizable value of deferred tax assets. At January 1, 2016, we had $205.4 million of gross deferred tax assets on our consolidated balance sheet and a valuation allowance of $39.2 million has been established for certain deferred tax assets as it is more likely than not that they will not be realized. As January 1, 2016, the Company has federal net operating loss (“NOL”) carryforwards of approximately $386.2 million expiring at various dates through 2035. If not utilized, these carryforwards will begin to expire in 2019. In assessing the realizability of the deferred tax asset associated with the NOLs, management relied on the reversal of deferred tax liabilities within the U.S taxing jurisdictions of approximately $866.3 million. A 1% change in the effective tax rate would impact the current year benefit for income taxes by $0.2 million, and 2015 diluted earnings per share by $0.006 per diluted share.

Our Financial Results

We utilize a fifty-two, fifty-three week fiscal year ending on the Friday nearest December 31. Fiscal years 2015, 2014 and 2013 ended on January 1, 2016, January 2, 2015 and January 3, 2014, respectively. Fiscal years 2015 and 2014 contained fifty-two weeks and fiscal year 2013 contained fifty-three weeks.

	Year Ended			2015 vs. 2014		2014 vs. 2013	
	January 1, 2016	January 2, 2015	January 3, 2014	$ Change	% Change	$ Change	% Change
Dollars in thousands, except per share data							
Product Line Sales:							
Advanced Surgical, Orthopaedics, and Portable Medical	$243,385	$216,339	$208,990	$27,046	13 %	$7,349	4 %
Cardio and Vascular	143,260	58,770	48,357	84,490	144 %	10,413	22 %
Cardiac/Neuromodulation	356,064	330,921	328,455	25,143	8 %	2,466	1 %
Electrochem	59,449	81,757	78,143	(22,308)	(27)%	3,614	5 %
Elimination of interproduct line sales	(1,744)	—	—	(1,744)	NA	—	— %
Total sales	800,414	687,787	663,945	112,627	16 %	23,842	4 %
Cost of sales	565,279	456,389	444,632	108,890	24 %	11,757	3 %
Gross profit	235,135	231,398	219,313	3,737	2 %	12,085	6 %
Gross profit as a % of sales	29.4 %	33.6 %	33.0 %				
Selling, general and administrative expenses (SG&A)	102,530	90,602	88,107	11,928	13 %	2,495	3 %
SG&A as a % of sales	12.8 %	13.2 %	13.3 %				
Research, development and engineering costs, net (RD&E)	52,995	49,845	54,077	3,150	6 %	(4,232)	(8)%
RD&E as a % of sales	6.6 %	7.2 %	8.1 %				
Other operating expenses, net	66,464	15,297	15,790	51,167	334 %	(493)	(3)%
Operating income	13,146	75,654	61,339	(62,508)	(83)%	14,315	23 %
Operating margin	1.6 %	11.0 %	9.2 %				
Interest expense	33,513	4,252	11,261	29,261	688 %	(7,009)	(62)%
(Gain) loss on cost and equity method investments, net	(3,350)	(4,370)	694	1,020	(23)%	(5,064)	NA
Other (income) expense, net	(1,317)	(807)	546	(510)	63%	(1,353)	NA
Provision (benefit) for income taxes	(8,106)	21,121	12,571	(29,227)	NA	8,550	68 %
Effective tax rate	51.6 %	27.6 %	25.7 %				
Net income (loss)	$(7,594)	$55,458	$36,267	$(63,052)	(114)%	$19,191	53%
Net margin	(0.9)%	8.1 %	5.5 %				
Diluted earnings (loss) per share	$(0.29)	$2.14	$1.43	$(2.43)	(114)%	$0.71	50%

Fiscal 2015 Compared with Fiscal 2014

Sales

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

	Year Ended		2015 vs. 2014	
	January 1, 2016	January 2, 2015	$ Change	% Change
Sales:				
Advanced Surgical, Orthopaedics, and Portable Medical	$243,385	$216,339	$27,046	13 %
Cardio and Vascular	143,260	58,770	84,490	144 %
Cardiac/Neuromodulation	356,064	330,921	25,143	8 %
Electrochem	59,449	81,757	(22,308)	(27)%
Elimination of interproduct line sales	(1,744)	—	(1,744)	NA
Total sales	$800,414	$687,787	$112,627	16 %

Changes to sales by business segments were as follows (dollars in thousands):

	Year Ended		2015 vs. 2014	
	January 1, 2016	January 2, 2015	$ Change	% Change
Sales:				
Greatbatch Medical	$649,977	$678,285	$(28,308)	(4)%
QiG	13,571	9,502	4,069	43 %
Lake Region Medical	139,819	—	139,819	100 %
Elimination of intersegment sales	(2,953)	—	(2,953)	NA
Total sales	$800,414	$687,787	$112,627	16 %

In connection with our acquisition of Lake Region Medical, we have recast our revenue by product line into the following four categories:

- Advanced Surgical, Orthopaedics, and Portable Medical – Includes legacy Greatbatch Orthopaedics and Portable Medical product line sales plus the legacy Lake Region Medical Advanced Surgical product line sales.
- Cardio and Vascular – Includes the legacy Greatbatch Vascular product line sales plus the legacy Lake Region Medical Cardio and Vascular product line sales less the legacy Lake Region Medical Cardiac/Neuromodulation sales.
- Cardiac/Neuromodulation – Includes the legacy Greatbatch Cardiac/Neuromodulation and QiG sales plus the legacy Lake Region Medical Cardiac/Neuromodulation sales previously included in their Cardio and Vascular product line sales.
- Electrochem – Includes the legacy Greatbatch Energy, Military and Environmental product line sales.

Total 2015 sales increased 16% to $800.4 million. The most significant drivers of this increase were as follows:

- Fiscal year 2015 Advanced Surgical, Orthopaedics, and Portable Medical sales increased 13% compared to the same period of 2014 and includes $37.9 million of sales from the former Lake Region Medical since the date of acquisition. During 2015, this product line continued to be negatively impacted by the weakening Euro, which reduced sales by approximately $14.5 million in comparison to the prior year. On an organic constant currency basis, our Advanced Surgical, Orthopaedics, and Portable Medical sales increased 2% in comparison to 2014 primarily due to orthopaedics market growth and new customer wins partially offset by lower portable medical sales due to our refocusing this product line's product offerings to products that have higher profitability.
- During 2015, our Cardio and Vascular sales increased $84.5 million in comparison to the prior year and includes $88.8 million of sales from the former Lake Region Medical since the date of acquisition. On an organic constant currency basis, our Cardio and Vascular sales decreased 7% in comparison to 2014 due to the end of life on some legacy products. This decrease was partially offset during the fourth quarter of 2015, as our customers built safety stock in anticipation of our product line transfers to our Tijuana, Mexico facility in the first quarter of 2016. We expect our product line transfer to Mexico will position us to be more competitive in both new and existing markets.

- For 2015, our Cardiac/Neuromodulation sales increased $25.1 million or 8% in comparison to 2014 and includes $13.7 million of sales from the former Lake Region Medical since the date of acquisition. On an organic constant currency basis, our Cardiac/Neuromodulation sales increased 2% in comparison to the prior year primarily due to a neuromodulation customer product launch, which was partially offset by the runoff of end of life products from our legacy cardiac customers.
- Full year 2015 Electrochem sales declined 27%. This decrease was primarily due to the slowdown in the energy markets, which has caused customers to reduce drilling and exploration volumes. We expect the slowdown in the energy markets to continue to be a headwind to Electrochem sales through the end of 2016.

Gross Profit

Changes to our Gross Margin percentage was primarily due to the following:

	2015-2014 % Point Change	
Performance-based compensation[a]	0.9	%
Production efficiencies, volume and mix[b]	0.1	%
Impact of Lake Region Medical acquisition[c]	(5.1	)%
Other	(0.1	)%
Total percentage point change to gross profit as a percentage of sales	(4.2	)%

(a) Amount represents the change in performance-based compensation versus the prior year period and is recorded based upon the actual results achieved.

(b) Our Gross Margin percentage benefited from production efficiencies gained at our manufacturing facilities as a result of our various lean and supply chain initiatives, which was partially offset by a higher sales mix of lower margin products.

(c) Amount represents the impact to our gross profit percentage related to the acquisition of Lake Region Medical in October 2015 and includes $23.0 million of inventory step-up amortization.

In the short-term, we expect our Gross Margins to be negatively impacted by the Lake Region Medical acquisition, which historically has had lower gross margins than legacy Greatbatch, as well as continued pricing pressure from our OEM customers. However, over the long-term, we expect to see our Gross Margin improve as we rationalize the manufacturing footprint across both the legacy Greatbatch and legacy Lake Region Medical facilities - See “Cost Savings and Consolidation Efforts” section of this Item.

SG&A Expenses

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

	2015-2014 $ Change	
Performance-based compensation[a]	$(4,051	)
Legal fees[b]	1,569	
Impact of Lake Region Medical acquisition[c]	14,823	
Other	(413	)
Net increase in SG&A	$11,928	

(a) Amount represents the change in performance-based compensation versus the prior year and is recorded based upon the actual results achieved.

(b) Amount represents an increase in legal costs compared to the prior year and includes higher intellectual property (“IP”) related defense costs, as well as other corporate initiatives. In 2013, we filed suit against one of our cardiac/neuromodulation competitors alleging they were infringing on our IP. Costs associated with this litigation accounted for $1.9 million of the increase in SG&A expenses from 2014 to 2015.

(c) Amount represents the incremental SG&A expenses related to the acquisition of Lake Region Medical in October 2015 and CCC acquired in August 2014.

RD&E Expenses, Net

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

	Year Ended January 1, 2016	January 2, 2015	Change
Research, development and engineering costs	$59,767	$58,974	$793
Less: cost reimbursements	(6,772)	(9,129)	2,357
Total RD&E, net	$52,995	$49,845	$3,150

Net RD&E for 2015 increased $3.2 million to $53.0 million. Excluding the impact of the Lake Region Medical acquisition, which added $1.8 million to RD&E expenses in 2015, the increase in RD&E was primarily attributable to lower customer cost reimbursements. The $2.4 million decrease in customer cost reimbursements relates to the expiration of certain government grants acquired in our NeuroNexus acquisition, which we were not eligible to renew, as well as the timing of achievement of customer milestones. This increase was partially offset by lower performance-based compensation of $2.5 million, which was recorded based upon actual results achieved.

Other Operating Expenses, Net

OOE was comprised of the following (in thousands):

	Year Ended January 1, 2016	January 2, 2015	Change
2014 investments in capacity and capabilities[(a)]	$23,037	$8,925	$14,112
Orthopaedic facility optimization[(a)]	1,395	1,317	78
2013 operating unit realignment[(a)]	—	1,017	(1,017)
Legacy Lake Region consolidations[(a)]	1,961	—	1,961
Other consolidation and optimization income[(a)]	—	(71)	71
Acquisition and integration costs[(b)]	33,449	3	33,446
Asset dispositions, severance and other[(c)]	6,622	4,106	2,516
Total other operating expenses, net	$66,464	$15,297	$51,167

(a) Refer to the “Cost Savings and Consolidation Efforts” section of this Item and Note 13 “Other Operating Expenses, Net” of the Notes to Consolidated Financial Statements contained in Item 8 of this report for disclosures related to the timing and level of remaining expenditures for these initiatives.

(b) During 2015, we incurred $23.7 million in transaction costs related to the acquisition of Lake Region Medical. These costs primarily relate to professional and consulting fees incurred in connection with the due diligence efforts of this acquisition. Additionally, during 2015, we incurred $8.6 million in Lake Region Medical integration costs, which primarily included change-in-control payments to former Lake Region Medical executives, professional and consulting fees, and travel costs.

(c) During 2015 and 2014, we recorded losses in connection with various asset disposals and write-downs. During 2015, we incurred $6.0 million in legal and professional costs in connection with the pending Spin-off of Nuvectra. During 2014, we incurred $0.9 million of expense related to the separation of our Senior Vice President, Human Resources. Additionally, during 2014, Greatbatch Medical recorded charges in connection with its business reorganization to align its contract manufacturing operations. Costs incurred primarily related to consulting and IT development.

We continually evaluate our operating structure in order to maximize efficiencies and drive margin expansion. For 2016, other operating expenses, net are expected to be approximately $60 million to $70 million, as we continue to invest in our capacity and capabilities and the integration of Lake Region Medical. See “Cost Savings and Consolidation Efforts” contained in this Item for further details on these initiatives.

Interest Expense

Interest expense for 2015 increased $29.3 million in comparison to 2014. This increase was primarily due to the $1.8 billion of debt incurred in connection with the Lake Region Medical acquisition, as well as $9.5 million in one-time transaction costs (i.e. debt commitment fees, interest rate swap termination costs, debt extinguishment charges) incurred in connection with our acquisition of Lake Region Medical. Additionally, the current weighted average interest rate on our senior secured credit facility is 5.69% compared to 1.79% for 2014. See Note 9 “Debt” of the Notes to Consolidated Financial Statements contained in Item 8 of this report.

Gain on Cost and Equity Method Investments

During 2015, we recognized a $4.7 million gain and received a $3.6 million cash distribution from our equity method investment, which contributed to the $3.4 million net gain on cost and equity method investments for the year. During 2014, we sold one of our cost method investments, which resulted in a pre-tax gain of $3.2 million and contributed to the overall gain on cost and equity method investments for the year. As of January 1, 2016 and January 2, 2015, we held $20.6 million and $14.5 million, respectively. The total carrying value of these investments is reviewed quarterly for changes in circumstance or the occurrence of events that suggest our investment may not be recoverable. These investments are in start-up research and development companies whose fair value is highly subjective in nature and subject to significant fluctuations in the future that could result in material gains or losses.

Other (Income) Expense, Net

Other (income) expense, net primarily includes the impact of foreign currency exchange rate fluctuations on transactions denominated in foreign currencies. We recognized a gain of $1.3 million in 2015 and a gain of $1.3 million in 2014, primarily due to the strengthening of the U.S. dollar relative to the Euro. We generally do not expect foreign currency exchange rate fluctuations to have a material impact on our net results of operations.

Provision (Benefit) for Income Taxes

The effective tax rate for fiscal year 2015 was 51.6% compared to 27.6% for fiscal year 2014. On an adjusted basis, our effective tax rate was 22.1% for 2015 compared to 28.8% for 2014. The 2015 and 2014 GAAP and adjusted effective tax rates include the benefit of the Federal research and development tax credit (“R&D Tax Credit”), which was reinstated in the fourth quarter of 2015 and fourth quarter of 2014, respectively. As required, the R&D Tax Credit is recognized in the quarter the legislation is enacted. In addition to the above, the 2015 GAAP and adjusted effective tax rates benefited from higher income in lower tax jurisdictions, which was partially offset by nondeductible transaction costs in connection with the acquisition of Lake Region Medical and the pending spin-off of Nuvectra. These nondeductible transaction costs are not tax-effected for purposes of calculating adjusted diluted EPS amounts. The stand-alone U.S. component of the effective tax rate for 2015 reflected a $13.1 million benefit on $42.1 million of pre-tax book loss (31.2%) versus $18.5 million tax expense on $56.8 million of pre-tax book income (32.6%) for 2014. The foreign source income carries a lower overall effective tax rate than U.S. income. The stand-alone International component of the effective tax rate for 2015 reflected a tax expense of $5.0 million on $26.5 million of pre-tax book income (19.0%) versus a tax expense of $2.6 million on $19.8 million of pre-tax book income (13.3%) for 2014.

The provision (benefit) for income taxes for 2015 differs from the U.S. statutory rate due to the following (dollars in thousands):

	U.S.		International		Combined	
	$	%	$	%	$	%
Income (loss) before provision for income taxes	$(42,166)		$26,466		$(15,700)	
Provision (benefit) at statutory rate	$(14,758)	35.0 %	$9,263	35.0 %	$(5,495)	35.0 %
Federal tax credits	(1,850)	4.4	—	—	(1,850)	11.8
Foreign rate differential	(331)	0.8	(2,849)	(10.8)	(3,180)	20.2
Uncertain tax positions	(531)	1.3	—	—	(531)	3.4
State taxes, net of federal benefit	(1,490)	3.5	—	—	(1,490)	9.5
Change in foreign tax rates	—	—	(91)	(0.3)	(91)	0.6
Non-deductible transaction costs	4,867	(11.5)	—	—	4,867	(31.0)
Valuation allowance	943	(2.2)	(317)	(1.2)	626	(4.0)
Other	6	—	(968)	(3.7)	(962)	6.1
Provision (benefit) for income taxes	$(13,144)	31.2 %	$5,038	19.0 %	$(8,106)	51.6 %

The U.S. component of the rate reflects the impact of non-deductible transaction costs related to the acquisition of Lake Region Medical and the Nuvectra Spin-off, which resulted in a reduction in the overall U.S. benefit of 11.5%. The International component of the rate, which increased from 2014 to 2015, reflects a reduction in the foreign rate differential due to a decrease of taxable profits in lower tax jurisdictions as a result of additional costs incurred for ongoing expansion efforts.

There is a prospective potential for volatility of the effective tax rate due to several factors, including changes in the mix of pre-tax income and the jurisdictions to which it relates, business acquisitions, settlements with taxing authorities, and foreign currency exchange rate fluctuations. In addition, we continue to explore tax planning opportunities that may have a material impact on our effective tax rate.

We believe it is reasonably possible that a reduction of approximately $0.1 million of the balance of unrecognized tax benefits may occur within the next twelve months as a result of the lapse of the statute of limitations and/or audit settlements, which would positively impact the effective tax rate in the period of reduction. As of January 1, 2016, approximately $8.5 million of unrecognized tax benefits would favorably impact the effect tax rate (net of federal impact on state issues), if recognized.

Fiscal 2014 Compared with Fiscal 2013

Sales

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

	Year Ended		2014 vs. 2013		
	January 2, 2015	January 3, 2014	$ Change	% Change	
Sales:					
Advanced Surgical, Orthopaedics, and Portable Medical	$216,339	$208,990	$7,349	4	%
Cardio and Vascular	58,770	48,357	10,413	22	%
Cardiac/Neuromodulation	330,921	328,455	2,466	1	%
Electrochem	81,757	78,143	3,614	5	%
Elimination of interproduct line sales	—	—	—	—	%
Total sales	$687,787	$663,945	$23,842	4	%

Changes to sales by business segment were as follows (dollars in thousands):

	Year Ended		2014 vs. 2013		
	January 2, 2015	January 3, 2014	$ Change	% Change	
Sales:					
Greatbatch Medical	$678,285	$660,902	$17,383	3	%
QiG	9,502	3,043	6,459	212	%
Elimination of Intersegment sales	—	—	—	—	%
Total sales	$687,787	$663,945	$23,842	4	%

Total 2014 sales increased 4% to $687.8 million. The most significant drivers of this increase were as follows:

- Advanced Surgical, Orthopaedics, and Portable Medical sales for 2014 increased 4% compared to the same period of 2013. Foreign currency exchange rate fluctuations increased our 2014 Orthopaedics sales by approximately $1 million in comparison to the prior year. Excluding the impact of foreign currency fluctuations, Orthopaedics sales increased 12% in comparison to the prior year. The 2014 organic constant currency growth was primarily in orthopaedic implants and instruments and was driven by our increased sales and marketing efforts and market growth. Additionally, our bone cutting and preparation instruments have a strong position in the market place. During 2014, Portable Medical sales decreased 12% in comparison to 2013. During the second half of 2013, we began refocusing our product line offerings in the portable medical space to products that have higher profitability. Correspondingly, we have discontinued or reduced volumes in certain of our lower margin products. As part of our investment in capacity and capabilities and to better align our resources, during the second quarter of 2014, we announced plans to transfer our portable medical operations into a new facility located in Tijuana, Mexico.
- For 2014, our Cardio and Vascular product line sales increased 22% in comparison to the prior year and reflects the continued adoption of our products and the relaunch of a vascular medical device near the end of 2013, which, as previously communicated, was voluntarily recalled in the fourth quarter of 2012.
- For 2014, our Cardiac/Neuromodulation sales increased 1% and includes $5.8 million of sales from CCC, which we acquired on August 12, 2014. CCC is an active implantable medical device systems developer and manufacturer that designs and produces a range of devices for some of the world's top medical device companies, including implantable pulse generators, programmer systems, battery chargers, patient wands and leads. The increase in sales from CCC was partially offset by the end of life for two legacy products, pricing pressure from our customers, and inventory adjustments by several of our larger OEM customers.
- Electrochem product line sales for 2014 increased 5% compared to the same period of 2013. This increase was mainly driven by new product introductions, our deepening relationship with our OEM customers, as well as the timing of customer orders.

Gross Profit

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

	2014-2013 % Point Change	
Performance-based compensation[(a)]	0.1	%
Production efficiencies, volume and mix[(b)]	1.9	%
Impact of acquisition[(c)]	0.1	%
Price[(d)]	(1.2	)%
Other	(0.3	)%
Total percentage point change to gross profit as a percentage of sales	0.6	%

(a) Amount represents the change in performance-based compensation versus the prior year period and is recorded based upon the actual results achieved.

(b) Our gross profit percentage benefited from production efficiencies gained at our manufacturing facilities as a result of our various lean and supply chain initiatives, as well as higher production volumes due to increased sales.

Partially offsetting

these production efficiencies was an increase in mix of lower margin sales in comparison to the prior year (i.e. higher mix of orthopaedic sales and lower mix of cardiac/neuromodulation sales).

(c) Amounts represent the impact to our gross profit percentage related to the acquisition of CCC in August 2014.

(d) Our gross profit percentage was negatively impacted by contractual price concessions to our larger OEM customers, which were given in exchange for long-term contracts and volume commitments.

SG&A Expenses

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

	2014-2013 $ Change
Selling and marketing[a]	$3,408
Performance-based compensation[b]	(991)
Legal fees[c]	2,555
G&A personnel costs[d]	(3,096)
Impact of acquisition[e]	911
Other	(292)
Net increase in SG&A	$2,495

(a) Amount represents the incremental costs related to our strategic initiative to increase selling and marketing resources to drive core business growth and sustain a pipeline of revenue generating opportunities.

(b) Amount represents the change in performance-based compensation versus the prior year and is recorded based upon the actual results achieved.

(c) Amount represents an increase in legal costs compared to the prior year and includes higher IP related defense costs, as well as other corporate initiatives. In 2013, we filed suit against one of our cardiac/neuromodulation competitors alleging they were infringing on our IP.

(d) Amount represents lower G&A personnel costs in comparison to the prior year and is primarily the result of our various consolidation initiatives including our operating unit realignment that occurred during the second half of 2013.

(e) Amount represents the incremental SG&A expenses related to the acquisition of CCC in August 2014.

RD&E Expenses, Net

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

	Year Ended		
	January 2, 2015	January 3, 2014	Change
Research, development, and engineering costs	$58,974	$62,652	$(3,678)
Less cost reimbursements	(9,129)	(8,575)	(554)
Total RD&E, net	$49,845	$54,077	$(4,232)

Net RD&E for 2014 decreased $4.2 million to $49.8 million. Net medical device costs incurred by QiG were $23.3 million for 2014 compared to $30.5 million for 2013. Medical device costs for 2014 include $4.2 million less DVT costs in comparison to 2013 as most of the testing was completed by the end of 2013. The decrease in DVT costs was partially offset by higher costs incurred in connection with the development of our next generation cardiac products (i.e. batteries, capacitors, filtered feedthroughs), higher performance-based compensation, which was accrued based upon the achievement of certain Algovita milestones, and a higher rate of spend on other QiG medical device projects. The increase in customer cost reimbursements in 2014 primarily relates to the timing of the achievement of milestones on various customer cost reimbursement projects, partially offset by the expiration of certain government grants acquired from our acquisition of NeuroNexus in 2012.

Other Operating Expenses, Net

OOE was comprised of the following (in thousands):

	Year Ended January 2, 2015	January 3, 2014	Change
2014 investments in capacity and capabilities[a]	$8,925	$—	$8,925
2013 operating unit realignment[a]	1,017	5,625	(4,608)
Orthopaedic facilities optimization[a]	1,317	8,038	(6,721)
Other consolidation and optimization costs[a]	(71)	1,095	(1,166)
Acquisition and integration (income) costs[b]	3	(502)	505
Asset dispositions, severance and other[c]	4,106	1,534	2,572
Total other operating expenses, net	$15,297	$15,790	$(493)

(a) Refer to "Cost Savings and Consolidation Efforts" section of this Item and Note 13 "Other Operating Expenses, Net" of the Notes to Consolidated Financial Statements contained in Item 8 of this report for disclosures related to the timing and level of remaining expenditures for these initiatives.

(b) During 2014 and 2013, we recognized costs (income) related to the integration of Micro Power Electronics, Inc., NeuroNexus, and CCC. These expenses (income) were primarily for retention bonuses, travel costs in connection with integration efforts, training, severance, and the change in fair value of the contingent consideration recorded in connection with the NeuroNexus acquisition. Refer to Note 13 "Other Operating Expenses, Net" of the Notes to Consolidated Financial Statements contained in Item 8 of this report for disclosures related to the change in fair value of the contingent consideration.

(c) During 2014 and 2013, we recorded losses in connection with various asset disposals and write-downs. During 2014, we incurred $0.9 million of expense related to the separation of our Senior Vice President, Human Resources. Additionally, during 2014, Greatbatch Medical recorded charges in connection with its business reorganization to align its contract manufacturing operations. Costs incurred primarily related to consulting and IT development. During 2013, Greatbatch Medical recorded a $0.9 million write-off related to its wireless sensing product line and QiG recorded a $0.5 million write-off of NeuroNexus's in-process research and development "IPR&D".

Interest Expense

Interest expense for 2014 decreased $7.0 million over 2013 primarily due to the repayment of $198 million of convertible subordinated notes during the first quarter of 2013, which had an effective interest rate of 8.5%. The weighted average interest rate on our long-term debt as of January 2, 2015 was 1.79%. Additionally, interest expense was lower in 2014 due to lower outstanding Credit Facility balances. During 2014 and 2013, we made net repayments of $10 million and $33.3 million on long-term debt, respectively. See Note 9 "Debt" of the Notes to Consolidated Financial Statements contained in Item 8 of this report.

(Gain) Loss on Cost and Equity Method Investments

During 2014, we sold one of our cost method investments, which resulted in a pre-tax gain of $3.2 million and contributed to the overall gain on cost and equity method investments for the year. During 2013, we incurred losses due to the writedown of our cost and equity method investments.

Other (Income) Expense, Net

Other (income) expense, net primarily includes the impact of foreign currency exchange rate fluctuations on transactions denominated in foreign currencies. In 2014, we recognized $1.3 million of foreign currency exchange gains compared to a loss of $0.1 million for 2013, primarily due to the strengthening of the U.S. dollar relative to the Euro.

Provision for Income Taxes

The effective tax rate for 2014 was 27.6% versus 25.7% for 2013. The stand-alone U.S. component of the effective tax rate for 2014 was 32.6% versus 30.0% for 2013. The year over year increase is primarily attributable to a decrease in federal tax credits recorded in 2014. $3.7 million of federal tax credits were recorded in 2013 as a result of the

retroactive reinstatement of the R&D Tax Credit versus $1.6 million in 2014. On January 2, 2013, the President signed into law the American Taxpayer Relief Act of 2012 (the "Act"), which included a retroactive extension of the R&D tax credit that had expired on December 31, 2011. Under the Act, the R&D credit was extended for two years retroactively from January 1, 2012 through December 31, 2013. As

the Act was signed into law on January 2, 2013, the effects of the change in the tax law were recognized in 2013. As such, a benefit for the R&D credits earned both in 2012 and 2013 were recorded through the fiscal 2013 effective tax rate. The 2014 effective tax rate appropriately reflects only the 2014 tax credits.

The increase in rate from the reduction in recognized tax credits was partially offset by the impact of an increase in foreign source income recognized in 2014. The foreign source income carries a lower overall effective tax rate than U.S. income.

The provision for income taxes for 2014 differs from the U.S. statutory rate due to the following (dollars in thousands):

	U.S.		International		Combined	
	$	%	$	%	$	%
Income before provision for income taxes	$56,801		$19,778		$76,579	
Provision at statutory rate	$19,881	35.0 %	$6,922	35.0 %	$26,803	35.0 %
Federal tax credits	(1,600)	(2.8)	—	—	(1,600)	(2.1)
Foreign rate differential[(a)]	—	—	(3,276)	(16.6)	(3,276)	(4.3)
Uncertain tax positions	412	0.7	—	—	412	0.6
State taxes, net of federal benefit	507	0.9	—	—	507	0.7
Change in foreign tax rates[(b)]	—	—	(446)	(2.3)	(446)	(0.6)
Valuation allowance	135	0.2	(434)	(2.2)	(299)	(0.4)
Other	(842)	(1.5)	(138)	(0.7)	(980)	(1.3)
Provision for income taxes/effective tax rate	$18,493	32.6 %	$2,628	13.3 %	$21,121	27.6 %

(a) The tax rate reflects the impact of an increase in foreign source income, which carries a lower overall effective tax rate than U.S. income.

(b) Amounts relate to the tax benefit resulting from a favorable Swiss tax ruling received in 2014. During 2014, our Swiss subsidiary filed for a tax ruling requesting a reduced income tax rate in Switzerland. We received an approved ruling in December 2014 effectively reducing the Swiss tax rate from 9.3% to approximately 6.5% depending on the jurisdictional mix of revenues and expenditures. As such, the carrying value of the deferred taxes, which reflected a net deferred tax liability position as of the date of enactment, have been adjusted to reflect the rate reduction. The adjusted carrying value resulted in a reduction to the deferred tax liability and a corresponding deferred tax benefit.

Liquidity and Capital Resources

	At	
(dollars in thousands)	January 1, 2016	January 2, 2015
Cash and cash equivalents	$82,478	$76,824
Working capital	$360,764	$242,022
Current ratio	2.69	3.23

The increase in cash and cash equivalents from January 2, 2015 was primarily due to $467.9 in net cash provided by financing activities and $12.5 million in net cash provided by operating activities. This increase was partially offset by the $423.4 net cash paid for the Lake Region Medical acquisition and $44.6 million of capital expenditures. Additionally, working capital balances increased $118.7 million from the end of 2014, primarily due to the $167.3 million of working capital acquired from Lake Region Medical partially offset by the net cash outflow in connection with the acquisition of Lake Region Medical. Of the $82.5 million of cash on hand as of January 1, 2016, $31.0 million is being held at our foreign subsidiaries and is considered permanently reinvested.

Credit Facilities – In connection with the acquisition of Lake Region Medical, during the fourth quarter of 2015, we replaced our existing credit facility and term loan with new senior secured credit facilities and completed a senior notes offering.

The new senior secured credit facilities (the "Senior Secured Credit Facilities") consist of (i) a $200 million revolving credit facility (the "Revolving Credit Facility"), (ii) a $375 million term loan A facility (the "TLA Facility"), and (iii) a $1,025 million term loan B facility (the "TLB Facility"). We also completed a private offering of $360 million aggregate principal amount of 9.125% senior notes due on November 1, 2023 (the "Senior Notes"). The TLA Facility and TLB Facility were funded in full on

October 27, 2015, and used, together with cash on hand and the net proceeds from the Senior Notes to fund the cash portion of the purchase price, to repay the outstanding debt of Lake Region Medical at closing, and to repay our term loan. The Revolving Credit Facility will mature on October 27, 2020, the TLA Facility will mature on October 27, 2021, and the TLB Facility will mature on October 27, 2022. The TLB facility was issued at a 1% discount.

The Revolving Credit Facility and the TLA Facility contain covenants requiring (A) a maximum total net leverage ratio (as defined in the Senior Secured Credit Facilities) of 6.5:1.00, subject to step downs and (B) a minimum interest coverage ratio of adjusted EBITDA (as defined in the Senior Secured Credit Facilities) to interest expense of not less than 3.00:1.00. As of January 1, 2016, our total net leverage ratio, calculated in accordance with our credit agreement, was approximately 5.2 to 1.00. For the twelve month period ended January 1, 2016, our ratio of adjusted EBITDA to interest expense, calculated in accordance with our credit agreement, was approximately 4.8 to 1.00. The Senior Secured Credit Facilities include mandatory prepayments customary for credit facilities of its nature. See Note 9 “Debt” of the Notes to Consolidated Financial Statements contained in Item 8 of this report for a more detailed description of the Revolving Credit Facility.

The Revolving Credit Facility is supported by a consortium of fourteen banks with no bank controlling more than 27% of the facility. As of January 1, 2016, the banks supporting 88% of the Revolving Credit Facility each had an S&P credit rating of at least BBB or better, which is considered investment grade. The banks which support the remaining 12% of the Revolving Credit Facility are not currently being rated.

Operating Activities – Cash flows from operating activities for 2015 were $12.5 million compared to $81.3 million for 2014. This decrease was primarily due to $28.0 million of lower cash net income in comparison to the prior year as well as $40.8 million higher working capital balances, primarily accrued expenses in connection with the acquisition of Lake Region Medical and the Spin-off, and higher inventory levels in anticipation of higher sales volumes, which fell short of expectations. We expect inventory will decrease to more normalized levels by the end of 2016. Immediately prior to the completion of the pending Spin-off, we expect to make a cash capital contribution of $75.0 million to Nuvectra, which is expected to be funded with cash on hand and/or availability under our Revolving Credit Facility.

Cash flows from operating activities for 2014 of $81.3 million were $24.5 million above 2013. During 2013, the Company made estimated tax payments of $28.8 million in connection with the retirement of our convertible subordinated notes. Excluding these payments, cash flows from operating activities for 2014 were slightly below 2013 as the increased level of cash operating income was more than offset by an increase in working capital levels primarily due to the timing of receivable collections.

Investing Activities – Net cash used in investing activities for 2015 was $473.6 million compared to $35.9 million for 2014. This increase was primarily related to $423.4 million of net cash used for the acquisition of Lake Region Medical as well as $44.6 million of additional investments made in property, plant and equipment in connection with the consolidation and optimization initiatives discussed in the “Cost Savings and Consolidation Efforts” section of this Item.

Net cash used in investing activities for 2014 of $35.9 million were $17.6 million above 2013. 2014 investing activities include $16.0 million of net cash used for the acquisition of CCC as well as $24.8 million of cash used for the purchase of property, plant and equipment. These transactions were partially offset by a $2.7 million contingent payment received in 2014 in connection with the sale of certain non-core Swiss orthopaedic product lines, which closed during the first quarter of 2013, as well as $2.2 million of net proceeds received from our cost and equity method investments.

Our current expectation is that capital spending for 2016 will be in the range of $60.0 million to $70.0 million, of which approximately half is discretionary in nature. We anticipate that cash on hand, cash flows from operations, and available borrowing capacity under our Revolving Credit Facility will be sufficient to fund these capital expenditures.

Financing Activities – Net cash provided by financing activities for 2015 was $467.9 million compared to net cash used in financing activities of $2.4 million for the prior year period. The net cash inflow for 2015 included $1.75 billion in borrowings to fund the acquisition of Lake Region Medical and $6.6 million of cash received from the exercise of stock options, which was partially offset by $1.2 billion in long-term debt repayments and $45.9 million in debt

issuance costs paid in connection with the Lake Region Medical acquisition. Additionally, during 2015, we paid $9.9 million to purchase the non-controlling interests in QiG's Algostim and PelviStim subsidiaries.

Net cash used in financing activities for 2014 of $2.4 million was $21.0 million less than the cash used in financing activities in 2013. This cash outflow is the result of $10.0 million of principal payments on long-term debt partially offset by $8.3 million of cash received from the exercise of stock options during 2014.

Capital Structure – After completion of the acquisition of Lake Region Medical, our capital structure consists of $1.7 billion of debt outstanding on our Senior Secured Credit Facilities and Senior Notes and 30.6 million shares of common stock outstanding as of January 1, 2016. As of January 1, 2016, we had $186.6 million of borrowing capacity available under the Revolving Credit Facility. This amount may vary from period to period based upon our debt and EBITDA levels, which impacts the

covenant calculations discussed above. As of January 1, 2016, our debt service obligations, comprised of principal and interest, for 2016 are estimated to be approximately $130 million. We believe that our cash flow from operations and available borrowing capacity under the Revolving Credit Facility provide adequate liquidity to meet our short- and long-term funding needs. We have clear line of sight to the committed Lake Region Medical acquisition synergies and believe we will be able to de-lever the company to 3.5X to 3X over the next two to three years. If necessary, we are authorized to issue 100 million shares of common stock and 100 million shares of preferred stock. We believe that, if needed, we can access public markets to raise additional capital. We continuously evaluate our capital structure as it relates to our anticipated long-term funding needs. Changes to our capital structure may occur as a result of this analysis or changes in market conditions.

Non-Guarantor Information – For the year ended January 1, 2016, after giving pro forma effect to the completion of the Lake Region Medical acquisition and Nuvectra Spin-off, the non-Guarantors of our credit facilities represented approximately 26% and 37% of our revenue and EBITDA, respectively. In addition, as of January 1, 2016, after giving pro forma effect to the completion of the Nuvectra Spin-off, the non-Guarantors of our credit facilities held approximately 25% of our total tangible assets and 3% of our total tangible liabilities. Tangible assets consist of total assets less intangible assets, intercompany receivables, and deferred taxes. Tangible liabilities consist of total liabilities less intercompany payables and deferred taxes.

Off-Balance Sheet Arrangements

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

Litigation

We are party to various legal actions arising in the normal course of business. A description of pending legal actions against the Company is set forth in Note 15 “Commitments and Contingencies” of the Notes to Consolidated Financial Statements contained at Item 8 of this report. Other than as discussed in Note 15, we do not believe that the ultimate resolution of any individual pending legal action will have a material effect on our consolidated results of operations, financial position or cash flows. However, litigation is subject to inherent uncertainties and there can be no assurance that any pending legal action, which we currently believe to be immaterial, does not become material in the future.

Contractual Obligations

The following table summarizes our contractual obligations at January 1, 2016:

	Payments due by period				
CONTRACTUAL OBLIGATIONS	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Debt obligations[a]	$2,459,312	$130,325	$271,002	$285,531	$1,772,454
Operating lease obligations[b]	78,597	14,118	20,901	15,904	27,674
Purchase obligations[b]	63,653	61,867	1,347	439	—
Foreign currency contracts[b]	16,480	16,480	—	—	—
Defined benefit plan obligations[c]	2,757	166	430	542	1,619
Total contractual obligations	$2,620,799	$222,956	$293,680	$302,416	$1,801,747

(a) Includes annual interest expense on the $1.7 billion outstanding on our Senior Secured Credit Facilities and Senior Notes based upon the period end weighted average interest rate of 5.69%. Also includes $3.7 million of deferred federal and state taxes on our convertible subordinated notes that will be due between 2016 and 2018. See Note 9 “Debt” of the Notes to Consolidated Financial Statements contained in Item 8 of this report.

(b) See Note 15 “Commitments and Contingencies” of the Notes to Consolidated Financial Statements contained in Item 8 of this report for additional information about our operating leases, purchase obligations and foreign currency contracts.

(c) See Note 10 “Benefit Plans” of the Notes to Consolidated Financial Statements contained in Item 8 of this report for additional information about our defined benefit plan obligations.

This table does not reflect $9.3 million of unrecognized tax benefits, as we are uncertain if or when such amounts may be settled. Refer to Note 14 “Income Taxes” of the Notes to Consolidated Financial Statements in Item 8 of this report

for additional information about these unrecognized tax benefits.

We self-fund the medical insurance coverage provided to our U.S. based employees. We limit our risk through the use of stop loss insurance. As of January 1, 2016, we had $4.0 million accrued related to our self-insurance obligations under our medical plan. This accrual is recorded in Accrued Expenses in the Consolidated Balance Sheet and is primarily based upon claim history. This table does not reflect any potential future payments for self-insured medical claims.

Prior to 2011, we were a member of a group self-insurance trust that provided workers' compensation benefits to employees of the Company in Western New York (the "Trust"). Prior to being acquired by Greatbatch, Lake Region Medical self-insured the workers' compensation benefits provided to its employees. As of January 1, 2016, the Company utilized a traditional insurance provider for workers' compensation coverage for all associates. During 2015, the Company received an additional assessment from the Trust of $0.9 million. As of January 1, 2016, we had $3.9 million accrued for workers' compensation claims. This accrual is recorded in Accrued Expenses in the Consolidated Balance Sheet and is primarily based upon claim history and assessments received. This table does not reflect any potential future payments for workers' compensation benefits.

Inflation

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

Impact of Recently Issued Accounting Standards

In the normal course of business, we evaluate all new accounting pronouncements issued by the Financial Accounting Standards Board ("FASB"), Securities and Exchange Commission ("SEC"), Emerging Issues Task Force ("EITF") or other authoritative accounting bodies to determine the potential impact they may have on our Consolidated Financial Statements. See Note 1 "Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements contained in Item 8 of this report for additional information about these recently issued accounting standards and their potential impact on our financial condition or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency – We have foreign operations in Ireland, Germany, France, Switzerland, Mexico, Uruguay, and Malaysia which expose us to foreign currency exchange rate fluctuations due to transactions denominated in Euros, Swiss francs, Mexican pesos, Uruguayan pesos, and Malaysian ringgits. We continuously evaluate our foreign currency risk, and we use operational hedges, as well as forward currency exchange rate contracts, to manage the impact of currency exchange rate fluctuations on earnings and cash flows. We do not enter into currency exchange rate derivative instruments for speculative purposes. A hypothetical 10% change in the value of the U.S. dollar in relation to our most significant foreign currency exposures would have had an impact of approximately $8 million on our 2015 annual sales. This amount is not indicative of the hypothetical net earnings impact due to the partially offsetting impacts on cost of sales and operating expenses in those currencies. The impact of foreign currency exposures will be more significant to our consolidated results in 2016 due to the inclusion of a full year Lake Region Medical results. We estimate that foreign currency exchange rate fluctuations during 2015 decreased sales in comparison to 2014 by approximately $14.5 million.

Historically, we have entered into forward contracts to purchase Mexican pesos in order to hedge the risk of peso-denominated payments associated with our operations in Mexico. In connection with the Lake Region Medical acquisition, we terminated our outstanding forward contracts resulting in a $2.4 million payment to the foreign currency contract counterparty during 2015. During the fourth quarter of 2015, we entered into a new forward contract to purchase 23.5 million Mexican pesos per month beginning in January 2016 through December 2016 at an exchange rate of $0.0584 per peso. This contract is being accounted for as a cash flow hedge. As of January 1, 2016, this contract has a negative fair value of $0.3 million.

We translate all assets and liabilities of our foreign operations where the U.S. dollar is not the functional currency at the period-end exchange rate and translate sales and expenses at the average exchange rates in effect during the period. The net effect of these translation adjustments is recorded in the Consolidated Financial Statements as Comprehensive Income (Loss). The translation adjustment for 2015 was a $7.8 million loss. Translation adjustments

are not adjusted for income taxes as they relate to permanent investments in our foreign subsidiaries. Net foreign currency transaction gains and losses included in Other (Income) Expense, Net amounted to a gain of $1.3 million for 2015. A hypothetical 10% change in the value of the U.S. dollar in relation to our most significant foreign currency net assets would have had an impact of approximately $53 million on our foreign net assets as of January 1, 2016.

Interest Rates – Historically, we have entered into interest rate swap agreements in order to hedge against potential changes in cash flows on our outstanding variable rate debt. As a result of the Lake Region Medical acquisition, the forecasted cash flows that our interest rate swaps were hedging were no longer expected to occur. Accordingly, during 2015, we terminated our outstanding interest rate swap agreements resulting in a $2.8 million payment to the interest rate swap counterparty. As of January 1, 2016, we have no interest rate swap agreements outstanding.

As of January 1, 2016, we had $1.7 billion in outstanding debt, of which $360 million related to our Senior Notes which has a fixed interest rate of 9.125%, $375 million related to our TLA Facility which has a variable interest rate, and $1,025 million related to our TLB Facility which has a 1.00% LIBOR floor, thus has a variable interest rate when LIBOR is above 1.00%. Interest rates on our TLA Facility and TLB Facility, reset, at our option, based upon the prime rate or LIBOR rate, thus subjecting us to interest rate risk. We are currently evaluating our interest rate risk exposures and may take steps to mitigate these exposures as appropriate. Refer to Note 9 “Debt” of the Notes to the Consolidated Financial Statements in Item 8 of this report for additional information about our outstanding debt. A hypothetical one percentage point (100 basis points) increase in the LIBOR rate on the $1.4 billion of unhedged variable rate debt outstanding at January 1, 2016 would increase our interest expense by approximately $7 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following are set forth below:

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's certifying officers are responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed and maintained under the supervision of its certifying officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

As of January 1, 2016, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that the Company's internal control over financial reporting as of January 1, 2016 is effective.

In conducting the evaluation of the effectiveness of internal control over financial reporting as of January 1, 2016, as permitted by the guidance issued by the Office of the Chief Accountant of the Securities and Exchange Commission, management excluded the following subsidiary acquired in 2015:

- Lake Region Medical Holdings, Inc.

This subsidiary represented approximately 66% of total assets, 17% of revenues, and 229% of net loss of the consolidated financial statement amounts as of and for the year ended January 1, 2016. See Note 2 – "Acquisitions" of the Notes to Consolidated Financial Statements contained in Item 8 of this report for a discussion of this acquisition and its impact on the Company's Consolidated Financial Statements.

The effectiveness of internal control over financial reporting as of January 1, 2016 has been audited by Deloitte & Touche LLP, the Company's independent registered public accounting firm.

Dated: March 1, 2016

/s/ Thomas J. Hook	/s/ Michael Dinkins
Thomas J. Hook	Michael Dinkins
President & Chief Executive Officer	Executive Vice President & Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Greatbatch, Inc.
Frisco, Texas

We have audited the internal control over financial reporting of Greatbatch, Inc. and subsidiaries (the "Company") as of January 1, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Lake Region Medical Holdings, Inc., which was acquired on October 27, 2015 and whose consolidated financial statements constitute 66% of total assets, 17% of revenues, and 229% of net loss of the consolidated financial statement amounts as of and for the year ended January 1, 2016. Accordingly, our audit did not include the internal control over financial reporting at Lake Region Medical Holdings, Inc. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 1, 2016, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and consolidated financial statement schedule as of and for the year

ended January 1, 2016 of the Company and our report dated March 1, 2016 expressed an unqualified opinion on those consolidated financial statements and consolidated financial statement schedule, and included explanatory paragraphs regarding the Company's changes in method of accounting for its debt issuance costs and deferred income taxes.

/s/ Deloitte & Touche LLP

Williamsville, New York
March 1, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Greatbatch, Inc.
Frisco, Texas

We have audited the accompanying consolidated balance sheets of Greatbatch, Inc. and subsidiaries (the "Company") as of January 1, 2016 and January 2, 2015, and the related consolidated statements of operations and comprehensive income (loss), cash flows, and stockholders' equity for each of the three years in the period ended January 1, 2016. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15. These consolidated financial statements and consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and consolidated financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of January 1, 2016 and January 2, 2015, and the results of its operations and its cash flows for each of the three years in the period ended January 1, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for debt issuance costs as of January 1, 2016 and January 2, 2015 due to the adoption of Accounting Standards Update ("ASU") No. 2015-03, Simplifying the Presentation of Debt Issuance Costs and ASU No. 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for deferred income taxes as of January 1, 2016 due to the adoption of Accounting Standards Update No. 2015-17, Balance Sheet Classification of Deferred Taxes.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of January 1, 2016, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Williamsville, New York
March 1, 2016

GREATBATCH, INC.
CONSOLIDATED BALANCE SHEETS

(in thousands except share and per share data)	At January 1, 2016	January 2, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$82,478	$76,824
Accounts receivable, net of allowance for doubtful accounts of $1.0 million in 2015 and $1.4 million in 2014	207,342	124,953
Inventories	252,166	129,242
Refundable income taxes	11,730	1,716
Deferred income taxes	—	6,168
Prepaid expenses and other current assets	20,888	11,780
Total current assets	574,604	350,683
Property, plant and equipment, net	379,492	144,925
Amortizing intangible assets, net	893,977	65,337
Indefinite-lived intangible assets	90,288	20,288
Goodwill	1,013,570	354,393
Deferred income taxes	3,587	2,626
Other assets	26,618	16,870
Total assets	$2,982,136	$955,122
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$29,000	$11,250
Accounts payable	84,362	46,436
Income taxes payable	3,221	2,003
Deferred income taxes	—	588
Accrued expenses	97,257	48,384
Total current liabilities	213,840	108,661
Long-term debt	1,685,053	175,363
Deferred income taxes	221,804	53,195
Other long-term liabilities	10,814	4,541
Total liabilities	2,131,511	341,760
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, $0.001 par value, authorized 100,000,000 shares; no shares issued or outstanding in 2015 or 2014	—	—
Common stock, $0.001 par value, authorized 100,000,000 shares; 30,664,119 shares issued and 30,601,167 shares outstanding in 2015; 25,099,293 shares issued and 25,070,931 shares outstanding in 2014	31	25
Additional paid-in capital	620,470	366,073
Treasury stock, at cost, 62,952 shares in 2015 and 28,362 shares in 2014	(3,100)	(1,307)
Retained earnings	231,854	239,448
Accumulated other comprehensive income	1,370	9,123
Total stockholders' equity	850,625	613,362
Total liabilities and stockholders' equity	$2,982,136	$955,122

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

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

(in thousands except per share data)	Year Ended January 1, 2016	January 2, 2015	January 3, 2014
Sales	$800,414	$687,787	$663,945
Cost of sales	565,279	456,389	444,632
Gross profit	235,135	231,398	219,313
Operating expenses:			
Selling, general and administrative expenses	102,530	90,602	88,107
Research, development and engineering costs, net	52,995	49,845	54,077
Other operating expenses, net	66,464	15,297	15,790
Total operating expenses	221,989	155,744	157,974
Operating income	13,146	75,654	61,339
Interest expense	33,513	4,252	11,261
(Gain) loss on cost and equity method investments, net	(3,350)	(4,370)	694
Other (income) expense, net	(1,317)	(807)	546
Income (loss) before provision for income taxes	(15,700)	76,579	48,838
Provision (benefit) for income taxes	(8,106)	21,121	12,571
Net income (loss)	$(7,594)	$55,458	$36,267
Earnings (loss) per share:			
Basic	$(0.29)	$2.23	$1.51
Diluted	$(0.29)	$2.14	$1.43
Weighted average shares outstanding:			
Basic	26,363	24,825	23,991
Diluted	26,363		