# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, DC 20549**

# FORM 10-Q

**(Mark One)**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2019**
**or**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**COMMISSION FILE NO. 0-26224**

# INTEGRA LIFESCIENCES HOLDINGS CORPORATION
**(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)**

| **DELAWARE** | **51-0317849** |
|---|---|
| **(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)** | **(I.R.S. EMPLOYER IDENTIFICATION NO.)** |
| **311 ENTERPRISE DRIVE PLAINSBORO, NEW JERSEY** | **08536** |
| **(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)** | **(ZIP CODE)** |

**REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (609) 275-0500**

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 o

Indicate by check mark whether the registrant has submitted electronically 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 o

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

| | | | |
|---|---|---|---|
| Large accelerated filer | x | Accelerated filer | o |
| Non-accelerated filer | o | Smaller reporting company | o |
| Emerging growth company | o | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes o No ☒

The number of shares of the registrant's Common Stock, $0.01 par value, outstanding as of April 25, 2019 was 85,476,801.

**INTEGRA LIFESCIENCES HOLDINGS CORPORATION**
**INDEX**

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**INTEGRA LIFESCIENCES HOLDINGS CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**AND COMPREHENSIVE INCOME**
**(UNAUDITED)**
(In thousands, except per share amounts)

| | Three Months Ended March 31, | |
|---|---|---|
| | **2019** | **2018** |
| **Total revenue, net** | $ 359,690 | $ 357,082 |
| **Costs and expenses:** | | |
| Cost of goods sold | 128,912 | 144,222 |
| Research and development | 18,321 | 18,325 |
| Selling, general and administrative | 174,870 | 163,566 |
| Intangible asset amortization | 5,279 | 5,390 |
| **Total costs and expenses** | 327,382 | 331,503 |
| **Operating income** | 32,308 | 25,579 |
| Interest income | 2,428 | 76 |
| Interest expense | (13,149) | (18,768) |
| Other income, net | 3,236 | 2,245 |
| **Income before income taxes** | 24,823 | 9,132 |
| Income tax benefit | (7,933) | (1,860) |
| **Net income** | $ 32,756 | $ 10,992 |
| | | |
| **Net income per share** | | |
| Basic | $ 0.38 | $ 0.14 |
| Diluted | $ 0.38 | $ 0.14 |
| | | |
| **Weighted average common shares outstanding (See Note 13):** | | |
| Basic | 85,343 | 78,552 |
| Diluted | 86,258 | 79,834 |
| **Comprehensive income (See Note 14)** | $ 21,520 | $ 32,604 |

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

**INTEGRA LIFESCIENCES HOLDINGS CORPORATION**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(UNAUDITED)**
(In thousands, except per share amounts)

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 157,025 | $ 138,838 |
| Trade accounts receivable, net of allowances of $4,099 and $3,719 | 279,072 | 265,737 |
| Inventories, net | 286,962 | 280,347 |
| Prepaid expenses and other current assets | 99,627 | 90,160 |
| Total current assets | 822,686 | 775,082 |
| Property, plant and equipment, net | 306,350 | 300,112 |
| Intangible assets, net | 1,058,630 | 1,079,496 |
| Goodwill | 922,508 | 926,475 |
| Deferred tax assets, net | 16,404 | 6,805 |
| Other assets | 79,133 | 19,917 |
| **Total assets** | $ 3,205,711 | $ 3,107,887 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Short-term portion of borrowings under senior credit facility | $ 33,750 | $ 22,500 |
| Accounts payable, trade | 100,553 | 76,050 |
| Deferred revenue | 3,750 | 3,764 |
| Accrued compensation | 57,561 | 75,693 |
| Accrued expenses and other current liabilities | 92,492 | 84,545 |
| Total current liabilities | 288,106 | 262,552 |
| Long-term borrowings under senior credit facility | 1,205,025 | 1,210,513 |
| Long-term borrowings under securitization facility | 126,000 | 121,200 |
| Deferred tax liabilities | 57,660 | 57,778 |
| Other liabilities | 131,890 | 80,048 |
| **Total liabilities** | 1,808,681 | 1,732,091 |
| Commitments and contingencies (Refer to Note 16) | | |
| Stockholders' equity: | | |
| Preferred stock; no par value; 15,000 authorized shares; none outstanding | — | — |
| Common stock; $0.01 par value; 240,000 authorized shares; 88,304 and 88,044 issued at March 31, 2019 and December 31, 2018, respectively | 882 | 880 |
| Additional paid-in capital | 1,191,807 | 1,192,601 |
| Treasury stock, at cost; 2,869 shares and 2,881 shares at March 31, 2019 and December 31, 2018, respectively | (120,109) | (120,615) |
| Accumulated other comprehensive loss | (56,679) | (45,443) |
| Retained earnings | 381,129 | 348,373 |
| **Total stockholders' equity** | 1,397,030 | 1,375,796 |
| **Total liabilities and stockholders' equity** | $ 3,205,711 | $ 3,107,887 |

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

**INTEGRA LIFESCIENCES HOLDINGS CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(UNAUDITED)**
(In thousands)

| | Three Months Ended March 31, | |
|---|---|---|
| | **2019** | **2018** |
| **OPERATING ACTIVITIES:** | | |
| Net income | $ 32,756 | $ 10,992 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 27,093 | 27,096 |
| Deferred income tax | (6,843) | (1,636) |
| Amortization of debt issuance costs | 1,357 | 1,519 |
| Loss on disposal of property and equipment | 367 | 146 |
| Change in fair value of contingent consideration and other | 194 | 379 |
| Share-based compensation | 4,083 | 4,731 |
| Changes in assets and liabilities, net of business acquisitions: | | |
| Accounts receivable | (13,705) | (18,400) |
| Inventories | (12,048) | 1,297 |
| Prepaid expenses and other current assets | (12,949) | 12,163 |
| Other non-current assets | (628) | 339 |
| Accounts payable, accrued expenses and other current liabilities | 5,387 | 2,974 |
| Deferred revenue | (188) | — |
| Other non-current liabilities | 4,608 | (69) |
| **Net cash provided by operating activities** | 29,484 | 41,531 |
| **INVESTING ACTIVITIES:** | | |
| Purchases of property and equipment | (16,086) | (15,387) |
| Proceeds from note receivable | 245 | 221 |
| Proceeds from sale of property and equipment | 35 | 148 |
| Cash provided by business acquisitions | — | 5,720 |
| **Net cash used in investing activities** | (15,806) | (9,298) |
| **FINANCING ACTIVITIES:** | | |
| Proceeds from borrowings of long-term indebtedness | 67,200 | 25,000 |
| Payments on debt | (57,400) | (35,000) |
| Net cash paid for contingent consideration | — | (7,772) |
| Proceeds from exercised stock options | 1,750 | 3,662 |
| Cash taxes paid in net equity settlement | (6,157) | (6,776) |
| **Net cash provided by (used in) financing activities** | 5,393 | (20,886) |
| Effect of exchange rate changes on cash and cash equivalents | (884) | 3,114 |
| **Net increase in cash and cash equivalents** | 18,187 | 14,461 |
| **Cash and cash equivalents at beginning of period** | 138,838 | 174,935 |
| **Cash and cash equivalents at end of period** | $ 157,025 | $ 189,396 |

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

**INTEGRA LIFESCIENCES HOLDINGS CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY**
**(UNAUDITED)**
(In thousands)

| | Three Months Ended March 31, 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common Stock | | Treasury Stock | | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total Equity |
| | Shares | Amount | Shares | Amount | | | | |
| | (In thousands) | | | | | | | |
| Balance, January 1, 2019 | 88,044 | $ 880 | (2,881) | $ (120,615) | $ 1,192,601 | $ (45,443) | $ 348,373 | $ 1,375,796 |
| Net income | — | — | — | — | — | — | 32,756 | 32,756 |
| Other comprehensive income (loss), net of tax | — | — | — | — | — | (11,236) | — | (11,236) |
| Issuance of common stock through employee stock purchase plan | 17 | — | — | — | 716 | — | — | 716 |
| Issuance of common stock for vesting of share based awards, net of shares withheld for taxes | 243 | 2 | 12 | 506 | (5,629) | — | — | (5,121) |
| Share-based compensation | — | — | — | — | 4,119 | — | — | 4,119 |
| Balance, March 31, 2019 | 88,304 | $ 882 | (2,869) | $ (120,109) | $ 1,191,807 | $ (56,679) | $ 381,129 | $ 1,397,030 |

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

**INTEGRA LIFESCIENCES HOLDINGS CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY**
**(UNAUDITED)**
(In thousands)

| | Three Months Ended March 31, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common Stock | | Treasury Stock | | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total Equity |
| | Shares | Amount | Shares | Amount | | | | |
| | (In thousands) | | | | | | | |
| Balance, January 1, 2018 | 81,306 | $ 813 | (2,927) | $ (121,644) | $ 821,758 | $ (23,807) | $ 285,186 | $ 962,306 |
| Net income | — | — | — | — | — | — | 10,992 | 10,992 |
| Adoption of Update No. 2014-09 | — | — | — | — | — | — | 1,854 | 1,854 |
| Other comprehensive income (loss), net of tax | — | — | — | — | — | 22,144 | (532) | 21,612 |
| Issuance of common stock | 297 | 3 | — | — | 3,107 | — | — | 3,110 |
| Issuance of common stock through employee stock purchase plan | — | — | — | — | 553 | — | — | 553 |
| Issuance of common stock for vesting of share based awards, net of shares withheld for taxes | 108 | 1 | 37 | 910 | (7,643) | — | — | (6,732) |
| Share-based compensation | — | — | — | — | 4,745 | — | — | 4,745 |
| Balance, March 31, 2018 | 81,711 | $ 817 | (2,890) | $ (120,734) | $ 822,520 | $ (1,663) | $ 297,500 | $ 998,440 |

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

**INTEGRA LIFESCIENCES HOLDINGS CORPORATION**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

## 1. BASIS OF PRESENTATION

*General*

The terms "we," "our," "us," "Company" and "Integra" refer to Integra LifeSciences Holdings Corporation, a Delaware corporation, and its subsidiaries unless the context suggests otherwise.

In the opinion of management, the March 31, 2019 unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the financial position, results of operations and cash flows of the Company. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2018 included in the Company's Annual Report on Form 10-K. The December 31, 2018 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. Operating results for the three month period ended March 31, 2019 are not necessarily indicative of the results to be expected for the entire year.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent liabilities, and the reported amounts of revenues and expenses. Significant estimates affecting amounts reported or disclosed in the consolidated financial statements include allowances for doubtful accounts receivable and sales returns and allowances, net realizable value of inventories, valuation of intangible assets including amortization periods for acquired intangible assets, discount rates and estimated projected cash flows used to value and test impairments of long-lived assets and goodwill, estimates of projected cash flows and depreciation and amortization periods for long-lived assets, computation of taxes, valuation allowances recorded against deferred tax assets, the valuation of stock-based compensation, valuation of derivative instruments, valuation of pension assets and liabilities, valuation of contingent liabilities, the fair value of debt instruments and loss contingencies. These estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the current circumstances. Actual results could differ from these estimates.

*Recently Issued Accounting Standards*

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842) (the New Lease Standard)*. The New Lease Standard requires that lessees recognize virtually all of its leases on the balance sheet by recording a right-of-use asset and lease liability (other than leases that meet the definition of a "short-term lease"). This update became effective for all annual periods and interim reporting periods beginning after December 15, 2018.

The Company adopted the New Lease Standard as of January 1, 2019 using a modified retrospective transition. Under this method, financial results reported in periods prior to January 1, 2019 are unchanged. The Company also elected the package of practical expedients, which among other things, does not require reassessment of lease classification. As most of our leases do not provide an implicit rate, we used our collateralized incremental borrowing rate based on the information available at the lease implementation date in determining the present value of the lease payments. The adoption of the New Lease Standard had an impact on our consolidated balance sheet due to the recognition of $76.4 million of lease liabilities with corresponding right-of-use assets ("ROU") of $67.3 million for operating leases. The difference between lease liabilities and right-of-use assets is primarily attributed to unamortized lease incentives which will be amortized over the term of each respective lease.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)*: *Measurement of Credit Losses on Financial Instruments.* The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets including trade receivables held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is evaluating the impact, if any, that this pronouncement will have on our financial position and results of operations.

In August 2018, the FASB issued ASU 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans.* The new guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans, including removing certain previous disclosure requirements, adding certain new disclosure requirements, and clarifying certain other disclosure requirements. The ASU will be effective for fiscal years beginning after December 15, 2020, including

interim periods within those fiscal years. Early adoption is permitted. The adoption is not expected to have a material impact on the Condensed and Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)*, relating to a customer's accounting for implementation, set-up, and other upfront costs incurred in a cloud computing arrangement that is hosted by a vendor (i.e., a service contract). Under the new guidance, a customer will apply the same criteria for capitalizing implementation costs as it would for an arrangement that has a software license. The new guidance also prescribes the balance sheet, income statement, and cash flow classification of the capitalized implementation costs and related amortization expense, and requires additional quantitative and qualitative disclosures. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application is permitted. The Company can choose to adopt the new guidance (1) prospectively to eligible costs incurred on or after the date this guidance is first applied or (2) retrospectively. The Company is evaluating the impact, if any, that this pronouncement will have on our financial position and results of operations.

There are no other recently issued accounting pronouncements that are expected to have any significant effect on the Company's financial position, results of operations or cash flows.

## 2. BUSINESS DEVELOPMENT

***Integrated Shoulder Collaboration, Inc.***

On January 4, 2019, the Company entered into a licensing agreement with Integrated Shoulder Collaboration, Inc ("ISC"). Under the terms of the agreement, the Company paid ISC $1.7 million for the exclusive, worldwide license to commercialize its short stem and stemless shoulder system. A patent related to short stem and stemless shoulder systems was issued to ISC during the first quarter of 2019. ISC is eligible to receive royalties on sales of the short stem and stemless shoulder system. The Company has the option to acquire ISC at a date four years subsequent to the first commercial sale, which becomes mandatory upon the achievement of a certain sales threshold of the short stem and stemless shoulder system, for an amount not to exceed $80.0 million. The transaction was accounted for as an asset acquisition as the Company concluded that it acquired primarily one asset. The total upfront payment of $1.7 million was expensed as a component of research and development expense and the future milestone and option payments will be recorded if the corresponding events become probable.

## 3. REVENUES FROM CONTRACTS WITH CUSTOMERS

***Summary of Accounting Policies on Revenue Recognition***

Revenue is recognized upon the transfer of control of promised products or services to the customers in an amount that reflects the consideration the Company expects to receive in exchange for those products and services.

Total revenue, net, includes product sales, product royalties and other revenues, such as fees received for services.

For products shipped with FOB shipping point terms, the control of the product passes to the customer at the time of shipment. For shipments in which the control of the product is transferred when the customer receives the product, the Company recognizes revenue upon receipt by the customer. Certain products that the Company produces for private label customers have no alternative use and the Company has a right of payment for performance to date. Revenues from those products are recognized over the period that the Company manufactures these products, which is typically one to three months. The Company uses the input method to measure the manufacturing activities completed to date, which depicts the progress of the Company's performance obligation of transferring control of goods being manufactured for private label customers.

A portion of the Company's product revenue is generated from consigned inventory maintained at hospitals and distributors, and also from inventory physically held by field sales representatives. For these types of products sales, the Company retains control until the product has been used or implanted, at which time revenue is recognized.

Revenues from sale of products and services are evidenced by either a contract with the customer or a valid purchase order and an invoice which includes all relevant terms of sale. For product sales, invoices are generally issued upon the transfer of control (or upon the completion of the manufacturing in the case of the private label transactions recognized over time) and are typically payable thirty days after the invoice date. The Company performs a review of each specific customer's creditworthiness and ability to pay prior to acceptance as a customer. Further, the Company performs periodic reviews of its customers' creditworthiness prospectively.

Performance Obligations

The Company's performance obligations consist mainly of transferring control of goods and services identified in the contracts, purchase orders, or invoices. The Company has no significant multi-element contracts with customers.

Significant Judgments

Usage-based royalties and licenses are estimated based on the provisions of contracts with customers and recognized in the same period that the royalty-based products are sold by the Company's strategic partners. The Company estimates and recognizes royalty revenue based upon communication with licensees, historical information, and expected sales trends. Differences between actual reported licensee sales and those that were estimated are adjusted in the period in which they become known, which is typically the following quarter. Historically, such adjustments have not been significant.

The Company estimates returns, price concessions, and discount allowances using the expected value method based on historical trends and other known factors. Rebate allowances are estimated using the most likely method based on each customer contract.

The Company's return policy, as set forth in its product catalogs and sales invoices, requires the Company to review and authorize the return of a product in advance. Upon the authorization, a credit will be issued for the goods returned within a set amount of days from the shipment, which is generally ninety days.

The Company disregards the effects of a financing component if the Company expects, at contract inception, that the period between the transfer and customer payment for the good or services will be one year or less. The Company has no significant revenues recognized on payments expected to be received more than one year after the transfer of control of products or services to customers.

Contract Asset and Liability

Revenues recognized from the Company's private label business that are not invoiced to the customers as a result of recognizing revenue over time are recorded as a contract asset included in the prepaid expenses and other current assets account in the consolidated balance sheet.

Other operating revenues may include fees received under service agreements. Non-refundable fees received under multiple-period service agreements are recognized as revenue as the Company satisfies the performance obligations to the other party. A portion of the transaction price allocated to the performance obligations to be satisfied in the future periods is recognized as contract liability.

The following table summarizes the changes in the contract asset and liability balances for the three months ended March 31, 2019:

| | | |
|---|---|---|
| Contract Asset | | |
| Contract asset, January 1, 2019 | $ | 4,193 |
| Transferred to trade receivable of contract asset included in beginning of the year contract asset | | (4,193) |
| Contract asset, net of transferred to trade receivables on contracts during the period | | 5,848 |
| Contract asset, March 31, 2019 | $ | 5,848 |

| | | |
|---|---|---|
| Contract Liability | | |
| Contract liability, January 1, 2019 | $ | 12,716 |
| Recognition of revenue included in beginning of year contract liability | | (1,165) |
| Contract liability, net of revenue recognized on contracts during the period | | 800 |
| Foreign currency translation | | 4 |
| Contract liability, March 31, 2019 | $ | 12,355 |

At March 31, 2019, the short-term portion of the contract liability of $3.8 million and the long-term portion of $8.6 million were included in accrued expenses and other current liabilities and other liabilities in the consolidated balance sheet.

As of March 31, 2019, the Company is expected to recognize revenue of approximately $3.0 million for the remainder of 2019, $2.9 million in 2020, $2.2 million in 2021, $1.3 million in 2022, $0.8 million in 2023, and $2.2 million thereafter.

Shipping and Handling Fees

The Company elected to account for shipping and handling activities as a fulfillment cost rather than a separate performance obligation. Amounts billed to customers for shipping and handling are included as part of the transaction price and recognized as revenue when control of underlying products is transferred to the customer. The related shipping and freight charges incurred by the Company are included in the cost of goods sold.

Product Warranties

Certain of the Company's medical devices, including monitoring systems and neurosurgical systems, are designed to operate over long periods of time. These products are sold with warranties which may extend for up to two years from the date of purchase. The warranties are not considered a separate performance obligation. The Company estimates its product warranties using the expected value method based on historical trends and other known factors. The Company includes them in accrued expenses and other current liabilities in the consolidated balance sheet.

Taxes Collected from Customers

The Company elected to exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the entity from a customer.

Disaggregated Revenue

The following table presents revenues disaggregated by the major sources of revenues for the three months ended March 31, 2019 and 2018 (amounts in thousands):

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|
| | (amounts in thousands) | |
| Neurosurgery | $ 166,415 | $ 166,898 |
| Precision Tools and Instruments | 68,153 | 69,217 |
| Total Codman Specialty Surgical | 234,568 | 236,115 |
| | | |
| Wound Reconstruction and Care | 74,963 | 72,287 |
| Extremity Orthopedics | 22,685 | 22,635 |
| Private Label | 27,474 | 26,045 |
| Total Orthopedics and Tissue Technologies | 125,122 | 120,967 |
| Total revenue | $ 359,690 | $ 357,082 |

Prior period amounts were reclassified between categories within the Orthopedics and Tissue Technologies segment to conform to the current period presentation.

See Note 15, *Segment and Geographical Information*, for details of revenues based on the location of the customer.

***Effect of Adoption of ASC Topic 606***

On January 1, 2018, the Company adopted Topic 606 using the modified retrospective method applied to all contracts which were not completed as of January 1, 2018. Results of operations for the reporting periods after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with Topic 605, *Revenue Recognition*.

The adoption of Topic 606 resulted in an increase to the opening retained earnings of $1.9 million, which was recorded net of taxes as of January 1, 2018 to reflect the change in timing of the recognition of revenue related to the Company's private label business from point in time to over time during the manufacturing process and goods in transit for which control was transferred to customers at the time of shipment. The total assets and liabilities increased by $7.1 million and $5.2 million, respectively, as of January 1, 2018.

The impact of adoption in the year of implementation of Topic 606 to the Company's consolidated statement of operations for the three months ended March 31, 2018 was as follows:

| | Three Months Ended March 31, 2018 | |
|---|---|---|
| | As Reported | Excluding Impact of Topic 606 |
| | (Amounts in thousands) | |
| **Statement of Operations** | | |
| Total revenue, net | $ 357,082 | $ 356,622 |
| Cost of goods sold | 144,222 | 144,019 |
| Income tax benefit | (1,860) | (1,924) |
| Net income | 10,992 | 10,799 |

## 4. INVENTORIES

Inventories, net consisted of the following:

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| | (In thousands) | |
| Finished goods | $ 178,263 | $ 179,885 |
| Work in process | 52,640 | 47,715 |
| Raw materials | 56,059 | 52,747 |
| | $ 286,962 | $ 280,347 |

## 5. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill for the three-month period ended March 31, 2019 were as follows:

| | Codman Specialty Surgical | Orthopedics and Tissue Technologies | Total |
|---|---|---|---|
| | (In thousands) | | |
| Goodwill at December 31, 2018 | $ 625,760 | $ 300,715 | $ 926,475 |
| Foreign currency translation | (2,679) | (1,288) | (3,967) |
| Goodwill at March 31, 2019 | $ 623,081 | $ 299,427 | $ 922,508 |

The components of the Company's identifiable intangible assets were as follows:

| | | March 31, 2019 | | |
|---|---|---|---|---|
| | Weighted Average Life | Cost | Accumulated Amortization | Net |
| | | (Dollars in thousands) | | |
| Completed technology | 19 years | $ 852,751 | $ (178,506) | $ 674,245 |
| Customer relationships | 13 years | 231,111 | (110,519) | 120,592 |
| Trademarks/brand names | 28 years | 103,820 | (25,665) | 78,155 |
| Codman trade name | Indefinite | 161,025 | — | 161,025 |
| Supplier relationships | 27 years | 34,721 | (16,876) | 17,845 |
| All other | 4 years | 10,844 | (4,076) | 6,768 |
| | | $ 1,394,272 | $ (335,642) | $ 1,058,630 |

| | | December 31, 2018 | | |
|---|---|---|---|---|
| | Weighted Average Life | Cost | Accumulated Amortization | Net |
| | | (Dollars in thousands) | | |
| Completed technology | 19 years | $ 855,679 | $ (167,384) | $ 688,295 |
| Customer relationships | 13 years | 231,448 | (106,859) | 124,589 |
| Trademarks/brand names | 28 years | 104,061 | (24,764) | 79,297 |
| Codman trade name | Indefinite | 162,054 | — | 162,054 |
| Supplier relationships | 27 years | 34,721 | (16,519) | 18,202 |
| All other | 4 years | 10,958 | (3,899) | 7,059 |
| | | $ 1,398,921 | $ (319,425) | $ 1,079,496 |

Based on quarter-end exchange rates, amortization expense (including amounts reported in cost of product revenues) is expected to be approximately $49.5 million for the remainder of 2019, $65.8 million in 2020, $64.7 million in 2021, $61.2 million in 2022, $60.3 million in 2023, $59.5 million in 2024 and $535.9 million thereafter.

In April of 2019, a contract manufacturing customer of our Private Label product line received a notification from the FDA ordering them to remove their product from the market. Revenue for this customer was approximately $1.7 million and $0.6 million for the twelve month period ended December 31, 2018 and three month period ended March 31, 2019, respectively. The Company has an acquired customer relationship intangible asset associated with this customer with a carrying value of $5.9 million as of March 31, 2019. The Company is assessing the impact of this decision on our relationship with this customer and any related financial impact including potential future impairments.

## 6. DEBT

***Amended and Restated Senior Credit Agreement***

On May 3, 2018, the Company entered into the fifth amendment and restatement (the "May 2018 Amendment") of its Senior Credit Facility (the "Senior Credit Facility") with a syndicate of lending banks with Bank of America, N.A., as Administrative Agent. The May 2018 Amendment extended the maturity date to May 3, 2023 and decreased the applicable rate, as described below. The Company continues to have the aggregate principal amount of $2.2 billion available to it through the following facilities:

i. a $900.0 million Term Loan facility; and
ii. a $1.3 billion revolving credit facility, which includes a $60.0 million sublimit for the issuance of standby letters of credit and a $60.0 million sublimit for swingline loans.

In connection with the May 2018 Amendment, the Company's maximum consolidated total leverage ratio in the financial covenants (as defined in the Senior Credit Facility) was modified to the following:

| Fiscal Quarter | Maximum Consolidated Total Leverage Ratio |
|---|---|
| Execution of May 2018 Amendment through March 31, 2019 | 5.50 : 1.00 |
| June 30, 2019 through March 31, 2020 | 5.00 : 1.00 |
| June 30, 2020 through March 31, 2021 | 4.50 : 1.00 |
| June 30, 2021 and thereafter | 4.00 : 1.00 |

Borrowings under the Senior Credit Facility bear interest, at the Company's option, at a rate equal to the following:

i. the Eurodollar Rate (as defined in the Senior Credit Facility) in effect from time to time plus the applicable rate (ranging from 1.00% to 1.75%), or
ii. the highest of:
    1. the weighted average overnight Federal funds rate, as published by the Federal Reserve Bank of New York, plus 0.50%, plus the applicable rate (ranging from 0% to 0.75%),
    2. the prime lending rate of Bank of America, N.A. plus the applicable rate (ranging from 0% to 0.75%), and
    3. the one-month Eurodollar Rate plus 1.00% plus the applicable rate (ranging from 0% to 0.75%).

The applicable rates are based on the Company's consolidated total leverage ratio (defined as the ratio of (a) consolidated funded indebtedness less cash that is not subject to any restriction on the use or investment thereof to (b) consolidated EBITDA at the time of the applicable borrowing).

The Company will pay an annual commitment fee (ranging from 0.15% to 0.30%), based on the Company's consolidated total leverage ratio, on the amount available for borrowing under the revolving credit facility.

The Senior Credit Facility is collateralized by substantially all of the assets of the Company's U.S. subsidiaries, excluding intangible assets. The Senior Credit Facility is subject to various financial and negative covenants and at March 31, 2019, the Company was in compliance with all such covenants. In connection with the May 2018 Amendment, the Company capitalized $4.2 million of financing costs and wrote off $0.8 million of previously capitalized financing costs during the second quarter of 2018.

At March 31, 2019 and December 31, 2018, there was $350.0 million and $345.0 million outstanding, respectively, under the revolving credit component of the Senior Credit Facility at weighted average interest rates of 3.9% and 4.0%, respectively. At March 31, 2019 and December 31, 2018, there was $900.0 million outstanding under the Term Loan component of the Senior Credit Facility at a weighted average interest rate of 3.9%. At March 31, 2019, $33.8 million of the Term Loan component of the Senior Credit Facility is classified as current on the consolidated balance sheet.

***Securitization Facility***

During the fourth quarter of 2018, the Company entered into an accounts receivable securitization facility (the "Securitization Facility") under which accounts receivable of certain domestic subsidiaries are sold on a non-recourse basis to a special purpose entity ("SPE"), which is a bankruptcy-remote, consolidated subsidiary of the Company. Accordingly, the assets of the SPE are not available to satisfy the obligations of the Company or any of its subsidiaries. From time to time, the SPE may finance such accounts receivable with a revolving loan facility secured by a pledge of such accounts receivable. The amount of outstanding borrowings on the Securitization Facility at any one time is limited to $150.0 million. The Securitization Facility agreement is for an initial three-year term and may be extended. The agreement governing the Securitization Facility contains certain covenants and termination events. An occurrence of an event of default or a termination event under this Securitization Facility may give rise to the right of its counterparty to terminate this facility. As of March 31, 2019, the Company was in compliance with the covenants, and none of the termination events had occurred. As of March 31, 2019, the Company had $126.0 million of outstanding borrowings under its Securitization Facility at a weighted average interest rate of 3.5%.

The fair value of outstanding borrowings of the Senior Credit Facility's revolving credit and Term Loan components at March 31, 2019 was approximately $340.9 million and, $885.3 million, respectively. The fair value of the outstanding borrowing of the Securitization facility at March 31, 2019 was approximately $124.6 million. These fair values were determined by using a discounted cash flow model based on current market interest rates available to the Company. These inputs are corroborated by observable market data for similar liabilities and therefore classified within Level 2 of the fair value hierarchy. Level 2 inputs represent inputs that are observable for the asset or liability, either directly or indirectly, and are other than active market observable inputs that reflect unadjusted quoted prices for identical assets or liabilities.

Letters of credit outstanding as of March 31, 2019 and December 31, 2018 totaled $0.6 million. There were no amounts drawn as of March 31, 2019.

Contractual repayments of the Term Loan component of the Senior Credit Facility are due as follows:

| Year Ended December 31, | Principal Repayment (In thousands) |
|---|---|
| Remainder of 2019 | $ 22,500 |
| 2020 | 45,000 |
| 2021 | 56,250 |
| 2022 | 67,500 |
| 2023 | 708,750 |
| | $ 900,000 |

The outstanding balance of the revolving credit component of the Senior Credit Facility is due on May 3, 2023.

**7. DERIVATIVE INSTRUMENTS**

***Interest Rate Hedging***

The Company's interest rate risk relates to U.S. dollar denominated variable interest rate borrowings. The Company uses interest rate swap derivative instruments to manage earnings and cash flow exposure resulting from changes in interest rates. These interest

rate swaps apply a fixed interest rate on a portion of our expected LIBOR-indexed floating-rate borrowings. The Company held the following interest rate swaps as of March 31, 2019 and December 31, 2018 (amounts in thousands):

| Hedged Item | Current Notional Amount | Designation Date | Effective Date | Termination Date | Fixed Interest Rate | March 31, 2019 Estimated Fair Value Assets (Liabilities) | December 31, 2018 Estimated Fair Value Assets (Liabilities) |
|---|---|---|---|---|---|---|---|
| 3-month USD LIBOR Loan | $ 50,000 | June 22, 2016 | December 31, 2016 | June 30, 2019 | 1.062% | $ 193 | $ 410 |
| 3-month USD LIBOR Loan | 50,000 | June 22, 2016 | December 31, 2016 | June 30, 2019 | 1.062% | 193 | 415 |
| 1-month USD LIBOR Loan | 50,000 | July 12, 2016 | December 31, 2016 | June 30, 2019 | 0.825% | 210 | 418 |
| 3-month USD LIBOR Loan | 50,000 | February 6, 2017 | June 30, 2017 | June 30, 2020 | 1.834% | 393 | 619 |
| 1-month USD LIBOR Loan | 100,000 | February 6, 2017 | June 30, 2017 | June 30, 2020 | 1.652% | 866 | 1,287 |
| 1-month USD LIBOR Loan | 100,000 | March 27, 2017 | December 31, 2017 | June 30, 2021 | 1.971% | 552 | 1,246 |
| 1-month USD LIBOR Loan | 150,000 | December 13, 2017 | January 1, 2018 | December 31, 2022 | 2.201% | (136) | 1,491 |
| 1-month USD LIBOR Loan | 150,000 | December 13, 2017 | January 1, 2018 | December 31, 2022 | 2.201% | (168) | 1,460 |
| 1-month USD LIBOR Loan | 100,000 | December 13, 2017 | July 1, 2019 | June 30, 2024 | 2.423% | (1,059) | 418 |
| 1-month USD LIBOR Loan | 50,000 | December 13, 2017 | July 1, 2019 | June 30, 2024 | 2.423% | (572) | 162 |
| 1-month USD LIBOR Loan | 200,000 | December 13, 2017 | January 1, 2018 | December 31, 2024 | 2.313% | (1,226) | 2,076 |
| 1-month USD LIBOR Loan | 75,000 | October 10, 2018 | July 1, 2020 | June 30, 2025 | 3.220% | (3,726) | (2,594) |
| 1-month USD LIBOR Loan | 75,000 | October 10, 2018 | July 1, 2020 | June 30, 2025 | 3.199% | (3,698) | (2,551) |
| 1-month USD LIBOR Loan | 75,000 | October 10, 2018 | July 1, 2020 | June 30, 2025 | 3.209% | (3,735) | (2,568) |
| 1-month USD LIBOR Loan | 100,000 | December 18, 2018 | December 30, 2022 | December 31, 2027 | 2.885% | (2,426) | (797) |
| 1-month USD LIBOR Loan | 100,000 | December 18, 2018 | December 30, 2022 | December 31, 2027 | 2.867% | (2,337) | (873) |
| Total interest rate derivatives designated as cash flow hedge | $ 1,475,000 | | | | | $ (16,676) | $ 619 |

The Company has designated these derivative instruments as cash flow hedges. The Company assesses the effectiveness of these derivative instruments and has recorded the changes in the fair value of the derivative instrument designated as a cash flow hedge as unrealized gains or losses in accumulated other comprehensive income (“AOCI”), net of tax, until the hedged item affected earnings, at which point any gain or loss was reclassified to earnings. If the hedged cash flow does not occur, or if it becomes probable that it will not occur, the Company will reclassify the remaining amount of any gain or loss on the related cash flow hedge recorded in AOCI to interest expense at that time.

***Foreign Currency Hedging***

From time to time the Company enters into foreign currency hedge contracts intended to protect the U.S. dollar value of certain forecasted foreign currency denominated transactions. The Company assesses the effectiveness of the contracts that are designated as hedging instruments. The changes in fair value of foreign currency cash flow hedges are recorded in AOCI, net of tax, until the hedged item affects earnings. Once the related hedged item affects earnings, the Company reclassifies amounts recorded in AOCI to earnings. If the hedged forecasted transaction does not occur, or if it becomes probable that it will not occur, the Company will reclassify the amount of any gain or loss on the related cash flow hedge to earnings at that time. For contracts not designated as hedging instruments, the changes in fair value of the contracts are recognized in other income (expense), net in the consolidated statements of operation, along with the offsetting foreign currency gain or loss on the underlying assets or liabilities.

The success of the Company’s hedging program depends, in part, on forecasts of certain activity denominated in foreign currency. The Company may experience unanticipated currency exchange gains or losses to the extent that there are differences between forecasted and actual activities during periods of currency volatility. In addition, changes in currency exchange rates related to any unhedged transactions may affect earnings and cash flows.

***Cross-Currency Rate Swaps***

On October 2, 2017, the Company entered into cross-currency swap agreements to convert a notional amount of $300.0 million equivalent to 291.2 million of CHF denominated intercompany loans into U.S. dollars. The CHF-denominated intercompany loans were the result of the purchase of intellectual property by a subsidiary in Switzerland as part of the Codman Acquisition. The objective of these cross-currency swaps is to reduce volatility of earnings and cash flows associated with changes in the foreign currency exchange rate. Under the terms of these contracts, which have been designated as cash flow hedges, the Company will make interest payments in Swiss Francs and receive interest in U.S. dollars. Upon the maturity of these contracts, the Company will pay the principal amount of the loans in Swiss Francs and receive U.S. dollars from the counterparties.

The Company held the following cross-currency rate swaps as of March 31, 2019 (dollar amounts in thousands):

| | | | | | March 31, 2019 |
|---|---|---|---|---|---|
| | Effective Date | Termination Date | Fixed Rate | Aggregate Notional Amount | Fair Value Asset (Liability) |
| Pay CHF<br>Receive U.S.$ | October 2, 2017 | October 2, 2020 | 1.75%<br>4.38% | CHF 64,710<br>$ 66,667 | $ 1,062 |
| Pay CHF<br>Receive U.S.$ | October 2, 2017 | October 2, 2021 | 1.85%<br>4.46% | CHF 48,533<br>$ 50,000 | 575 |
| Pay CHF<br>Receive U.S.$ | October 2, 2017 | October 2, 2022 | 1.95%<br>4.52% | CHF 145,598<br>$ 150,000 | 1,078 |
| Total | | | | | $ 2,715 |

During the three months ended March 31, 2019, the Company settled a cross-currency swap designated as a cash flow hedge of an intercompany loan with an aggregate notional amount of $33.3 million. The original termination date was October 2, 2020, however, as the intercompany loan settlement was consummated during the three months ended March 31, 2019, the cross-currency swap was settled simultaneously. As a result of the settlement, the Company recorded a loss of $0.4 million in other income, net in the consolidated statement of operations.

The Company held the following cross-currency rate swaps as of December 31, 2018 (dollar amounts in thousands):

| | | | | | December 31, 2018 |
|---|---|---|---|---|---|
| | Effective Date | Termination Date | Fixed Rate | Aggregate Notional Amount | Fair Value Asset (Liability) |
| Pay CHF<br>Receive U.S.$ | October 2, 2017 | October 2, 2020 | 1.75%<br>4.38% | CHF 97,065<br>$ 100,000 | $ (215) |
| Pay CHF<br>Receive U.S.$ | October 2, 2017 | October 2, 2021 | 1.85%<br>4.46% | CHF 48,533<br>$ 50,000 | (422) |
| Pay CHF<br>Receive U.S.$ | October 2, 2017 | October 2, 2022 | 1.95%<br>4.52% | CHF 145,598<br>$ 150,000 | (2,193) |
| Total | | | | | $ (2,830) |

The cross-currency swaps are carried on the consolidated balance sheet at fair value, and changes in the fair values are recorded as unrealized gains or losses in AOCI. For the three months ended March 31, 2019 and 2018, the Company recorded a gain of $3.3 million and loss of $6.4 million, respectively, in other income (expense), net for the foreign currency rate translation to offset the gains or losses recognized on the intercompany loans.

For the three months ended March 31, 2019 and 2018, the Company recorded a gain of $5.5 million and a loss of $7.0 million, respectively, in AOCI related to the change in fair value of the cross-currency swap.

For the three months ended March 31, 2019 and 2018, the Company recorded gains of $1.9 million in other income, net included in the consolidated statements of operations related to the interest rate differential of the cross-currency swap.

As of March 31, 2019, an estimated gain of $6.8 million is expected to be reclassified within the next twelve months to other income, net from AOCI. As of March 31, 2019, the Company does not expect any gains or losses will be reclassified into earnings as a result of the discontinuance of these cash flow hedges because the original forecasted transaction will not occur.

***Net Investment Hedges***

The Company manages certain foreign exchange risks through a variety of strategies, including hedging. The Company is exposed to foreign exchange risk in its international operations from foreign currency purchases, net investments in foreign subsidiaries, and foreign currency assets and liabilities created in the normal course of business. On October 1, 2018, the

Company entered into cross-currency swap agreements designated as net investment hedges to partially offset the effects of foreign currency on foreign subsidiaries.

The Company held the following cross-currency rate swaps designated as net investment hedges as of March 31, 2019 and December 31, 2018, respectively (dollar amounts in thousands):

| | Effective Date | Termination Date | Fixed Rate | Aggregate Notional Amount | March 31, 2019 Fair Value Asset (Liability) | December 31, 2018 Fair Value Asset (Liability) |
|---|---|---|---|---|---|---|
| Pay EUR<br>Receive U.S.$ | October 3, 2018 | September 30, 2021 | —<br>3.01% | EUR 70,738<br>$ 82,000 | $ 3,343 | $ 1,359 |
| Pay EUR<br>Receive U.S.$ | October 3, 2018 | September 30, 2023 | —<br>2.57% | EUR 51,760<br>$ 60,000 | 2,175 | (421) |
| Pay EUR<br>Receive U.S.$ | October 3, 2018 | September 30, 2025 | —<br>2.19% | EUR 38,820<br>$ 45,000 | 1,037 | (150) |
| Pay GBP<br>Receive U.S.$ | October 3, 2018 | September 30, 2025 | 1.67%<br>2.71% | GBP 128,284<br>$ 167,500 | (1,026) | 2,360 |
| Pay CHF<br>Receive GBP | October 3, 2018 | September 30, 2025 | —<br>1.67% | CHF 165,172<br>GBP 128,284 | 1,731 | (3,780) |
| Total | | | | | $ 7,260 | $ (632) |

The cross-currency swaps were carried on the consolidated balance sheet at fair value, and changes in the fair values were recorded as unrealized gains or losses in AOCI. For the three months ended March 31, 2019, the Company recorded a gain of $7.9 million in AOCI related to the change in fair value of the cross-currency swaps.

For the three months ended March 31, 2019, the Company recorded a gain of $2.3 million in interest income included in the consolidated statements of operations related to the interest rate differential of the cross-currency swaps.

The estimated gain that is expected to be reclassified to interest income from AOCI as of March 31, 2019 within the next twelve months is $8.9 million.

Counterparty Credit Risk

The Company manages its concentration of counterparty credit risk on its derivative instruments by limiting acceptable counterparties to a group of major financial institutions with investment grade credit ratings, and by actively monitoring their credit ratings and outstanding positions on an ongoing basis. Therefore, the Company considers the credit risk of the counterparties to be low. Furthermore, none of the Company's derivative transactions are subject to collateral or other security arrangements, and none contain provisions that depend upon the Company's credit ratings from any credit rating agency.

Fair Value of Derivative Instruments

The Company has classified all of its derivative instruments within Level 2 of the fair value hierarchy because observable inputs are available for substantially the full terms of the derivative instruments. The fair value of the interest rate swaps and the cross-currency swaps was developed using a market approach based on publicly available market yield curves and the terms of the related swap. The Company performs ongoing assessments of counterparty credit risk.

The following table summarizes the fair value and presentation for derivatives designated as hedging instruments in the condensed consolidated balance sheets as of March 31, 2019 and December 31, 2018:

| | Fair Value as of | |
|---|---|---|
| **Location on Balance Sheet [1]:** | **March 31, 2019** | **December 31, 2018** |
| | **(In thousands)** | |
| **Derivatives designated as hedges — Assets:** | | |
| Prepaid expenses and other current assets | | |
| Cash Flow Hedges | | |
| Interest rate swap[2] | $ 2,738 | $ 4,654 |
| Cross-currency swap | 6,849 | 7,615 |
| Net Investment Hedges | | |
| Cross-currency swap | 8,910 | 8,888 |
| Other assets | | |
| Cash Flow Hedges | | |
| Interest rate swap[2] | 346 | 5,350 |
| Net Investment Hedges | | |
| Cross-currency swap | 1,532 | 1,774 |
| **Total derivatives designated as hedges — Assets** | $ 20,375 | $ 28,281 |
| | | |
| **Derivatives designated as hedges — Liabilities:** | | |
| Accrued expenses and other current liabilities | | |
| Cash Flow Hedges | | |
| Interest rate swap[2] | $ 87 | $ — |
| Other liabilities | | |
| Cash Flow Hedges | | |
| Interest rate swap[2] | 19,672 | 9,385 |
| Cross-currency swap | 4,134 | 10,445 |
| Net Investment Hedges | | |
| Cross-currency swap | 3,181 | 11,294 |
| **Total derivatives designated as hedges — Liabilities** | $ 27,074 | $ 31,124 |

(1) The Company classifies derivative assets and liabilities as non-current based on the cash flows expected to be incurred within the following 12 months.
(2) At March 31, 2019 and December 31, 2018, the notional amount related to the Company's interest rate swaps were $1.5 billion.

The following presents the effect of derivative instruments designated as cash flow hedges on the accompanying condensed consolidated statement of operations during the three months ended March 31, 2019 and 2018:

| | Balance in AOCI Beginning of Quarter | Amount of Gain (Loss) Recognized in AOCI | Amount of Gain (Loss) Reclassified from AOCI into Earnings | Balance in AOCI End of Quarter | Location in Statements of Operations |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **Three Months Ended March 31, 2019** | | | | | |
| Cash Flow Hedges | | | | | |
| Interest rate swap | $ 619 | $ (15,891) | $ 1,406 | $ (16,678) | Interest income |
| Cross-currency swap | (6,190) | 7,473 | 5,178 | (3,895) | Other income, net |
| Net Investment Hedges | | | | | |
| Cross-currency swap | (632) | 10,221 | 2,327 | 7,262 | Interest income |
| | $ (6,203) | $ 1,803 | $ 8,911 | $ (13,311) | |
| **Three Months Ended March 31, 2018** | | | | | |
| Cash Flow Hedges | | | | | |
| Interest rate swap | $ 592 | $ 14,940 | $ (656) | $ 16,188 | Interest expense |
| Cross-currency swap | (5,104) | (7,027) | (4,454) | (7,677) | Other income, net |
| | $ (4,512) | $ 7,913 | $ (5,110) | $ 8,511 | |

## 8. STOCK-BASED COMPENSATION

As of March 31, 2019, the Company had stock options, restricted stock awards, performance stock units, contract stock awards and restricted stock unit awards outstanding under two plans, the 2001 Equity Incentive Plan (the "2001 Plan") and the 2003 Equity Incentive Plan (the "2003 Plan," and collectively, the "Plans").

Stock options issued under the Plans become exercisable over specified periods, generally within four years from the date of grant for officers and employees, and within one year from date of grant for directors and generally expire eight years from the grant date for employees, and from six to ten years for directors and certain executive officers. The Company values stock option grants using the binomial distribution model. Restricted stock issued under the Plans vests over specified periods, generally three years after the date of grant. The vesting of performance stock issued under the Plans is subject to service and performance conditions.

Stock Options

As of March 31, 2019, there were approximately $7.0 million of total unrecognized compensation costs related to unvested stock options. These costs are expected to be recognized over a weighted-average period of approximately over three years. There were 202,752 stock options granted during the three months ended March 31, 2019. For the three months ended March 31, 2019, the weighted average grant date fair value for stock options was $18.74 per option.

Awards of Restricted Stock and Performance Stock

Performance stock and restricted stock awards generally have requisite service periods of three years. Performance stock units are subject to graded vesting conditions, and the Company expenses their fair value over the requisite service period. The Company expenses the fair value of restricted stock awards on a straight-line basis over the requisite service period. As of March 31, 2019, there were approximately $33.6 million of total unrecognized compensation costs related to these unvested awards. The Company expects to recognize these costs over a weighted-average period of approximately over two years. The Company granted 215,662 restricted stock awards and 118,903 performance stock awards during the three months ended March 31, 2019. For the three months ended March 31, 2019, the weighted average grant date fair value for restricted stock awards and performance stock units was $55.62 and $55.91 per award, respectively.

The Company has no formal policy related to the repurchase of stock for the purpose of satisfying stock-based compensation obligations.

The Company also maintains an Employee Stock Purchase Plan (the "ESPP"), which provides eligible employees with the opportunity to acquire shares of common stock at periodic intervals by means of accumulated payroll deductions. The ESPP is a non-compensatory plan based on its terms.

## 9. DEFINED BENEFIT PLANS

The Company maintains defined benefit pension plans that cover certain employees in Austria, France, Japan, Germany and Switzerland.

Net periodic benefit costs for the Company's defined benefit pension plans for the three months ended March 31, 2019 and 2018 were $0.5 million and $0.6 million, respectively. The components of the net periodic benefit costs other than the service cost component of $0.7 million for the three months ended March 31, 2019 and 2018, respectively, are included in other income (expense), net in the consolidated statements of operations.

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2018 that it expected to contribute $1.9 million to its defined benefit pension plans in 2019. For the three months ended March 31, 2019, the Company did not make a contribution to the defined benefit plans. As of March 31, 2019, the Company anticipates contributing $1.9 million to its defined benefit plans in 2019.

The estimated fair values of plan assets were $30.1 million and $31.1 million as of March 31, 2019 and December 31, 2018, respectively. The net plan assets of the pension plans are invested in common trusts as of March 31, 2019 and December 31, 2018. Common trusts are classified as Level 2 in the fair value hierarchy. The fair value of common trusts is valued at the net asset value based on the fair values of the underlying investments of the trusts as determined by the sponsor of the trusts. The investment strategy of the Company's defined benefit plans is both to meet the liabilities of the plans as they fall due and to maximize the return on invested assets within an appropriate risk profile.

## 10. LEASES AND RELATED PARTY LEASES

The Company leases administrative, manufacturing, research and distribution facilities and vehicles through operating lease agreements. The Company has no finance leases as of March 31, 2019. Many of our leases include both lease (e.g., fixed payments including rent) and non-lease components (e.g., common-area or other maintenance costs). For vehicles, we have elected the practical expedient to group lease and non-lease components.

Most facility leases include one or more options to renew. The exercise of lease renewal options is typically at our sole discretion, therefore, the majority of renewals to extend the lease terms are not included in our ROU assets and lease liabilities as they are not reasonably certain of exercise. We regularly evaluate the renewal options and when they are reasonably certain of exercise, we include the renewal period in our lease term.

As most of our leases do not provide an implicit rate, we use our collateralized incremental borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments.

Total operating lease expense for the three months ended March 31, 2019 and March 31, 2018, was $4.4 million and $3.4 million respectively, which includes $0.1 million, in related party operating lease expense.

Supplemental balance sheet information related to operating leases at March 31, 2019 were as follows:

| | March 31, 2019 |
|---|---|
| | (In thousands, except lease term and discount rate) |
| ROU assets | $ 64,999 |
| | |
| Current lease liabilities | $ 12,619 |
| Non-current lease liabilities | 61,711 |
| Total lease liabilities | $ 74,330 |
| | |
| Weighted average remaining lease term (in years): | |
| Leased facilities | 9.9 |
| Leased vehicles | 3.4 |
| | |
| Weighted average discount rate: | |
| Leased facilities | 5.7% |
| Leased vehicles | 3.2% |

ROU assets were included in other assets at March 31, 2019. Current lease liabilities were included in accrued expenses and other current liabilities and non-current lease liabilities were included in other liabilities at March 31, 2019.

Supplemental cash flow information related to leases was as follows for the three months ended March 31, 2019 (in thousands):

| | March 31, 2019 |
|---|---|
| | (In thousands) |
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash flows from operating leases | $ 3,408 |
| | |
| ROU assets obtained in exchange for lease liabilities: | |
| Operating leases | 2,004 |

Future minimum lease payments under operating leases at March 31, 2019 were as follows:

| | Related Parties | Third Parties | Total |
|---|---|---|---|
| | | (In thousands) | |
| 2019 | $ 222 | $ 11,641 | $ 11,863 |
| 2020 | 296 | 12,409 | 12,705 |
| 2021 | 296 | 11,532 | 11,828 |
| 2022 | 296 | 9,154 | 9,450 |
| 2023 | 296 | 7,282 | 7,578 |
| Thereafter | 1,724 | 40,893 | 42,617 |
| Total minimum lease payments | $ 3,130 | $ 92,911 | $ 96,041 |
| Less: Imputed interest | | | 21,711 |
| Total lease liabilities | | | 74,330 |
| Less: Current lease liabilities | | | 12,619 |
| Long-term lease liabilities | | | 61,711 |

During 2018, the Company entered into a lease for a new corporate headquarters in Princeton, NJ which is expected to commence during the second quarter of 2019. Total payments over the lease term are approximately $67.0 million. The payments are not included in the table above as the lease has yet to commence.

Future minimum lease payments under operating leases at December 31, 2018 were as follows:

| | Related Parties | Third Parties | Total |
|---|---|---|---|
| | | (In thousands) | |
| 2019 | $ 296 | $ 16,472 | $ 16,768 |
| 2020 | 296 | 13,510 | 13,806 |
| 2021 | 296 | 12,197 | 12,493 |
| 2022 | 296 | 12,937 | 13,233 |
| 2023 | 296 | 10,707 | 11,003 |
| Thereafter | 1,724 | 100,675 | 102,399 |
| Total minimum lease payments | $ 3,204 | $ 166,498 | $ 169,702 |

Total operating lease expense for the year ended December 31, 2018 was $16.3 million and included $0.3 million, in related party lease expense. Future lease expense for the new corporate headquarters in Princeton, NJ is included in the table above, however, has not yet commenced.

There were no future minimum lease payments under capital leases at December 31, 2018.

***Related Party Leases***

The Company leases its manufacturing facility in Plainsboro, New Jersey, from a general partnership that is 50% owned by a corporation whose shareholders are trusts, whose beneficiaries include family members of the Company's principal stockholder and former director. The term of the current lease agreement is through October 31, 2032 at an annual rate of approximately $0.3 million per year. The current lease agreement also provides (i) a 5-year renewal option for the Company to extend the lease from

November 1, 2032 through October 31, 2037 at the fair market rental rate of the premises, and (ii) another 5-year renewal option to extend the lease from November 1, 2037 through October 31, 2042 at the fair market rental rate of the premises.

**11. TREASURY STOCK**

As of March 31, 2019 and December 31, 2018, there were 2.9 million shares of treasury stock outstanding with a cost of $120.1 million and $120.6 million, respectively, at a weighted average cost per share of $41.87 and $41.87, respectively.

On December 11, 2018, the Board of Directors authorized the Company to repurchase up to $225.0 million of the Company's common stock. The program allows the Company to repurchase its shares opportunistically from time to time. The repurchase authorization expires in December 2020. Purchases may be affected through one or more open market transactions, privately negotiated transactions, transactions structured through investment banking institutions, or a combination of the foregoing. As of March 31, 2019, there remained $225.0 million available for repurchase under this authorization. This stock repurchase authorization replaces the previous $150.0 million stock repurchase authorization, approved by the Board in 2016.

There were no cash treasury stock repurchases during the three months ended March 31, 2019 and 2018.

**12. INCOME TAXES**

The following table provides a summary of the Company's effective tax rate:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Reported tax rate | (32.0)% | (20.4)% |

The Company's effective income tax rates for the three months ended March 31, 2019 and 2018 were (32.0)% and (20.4)%, respectively. For the three months ended March 31, 2019, the primary driver of the reduction in the rate is a tax benefit of $10.8 million ($0.13 per share) related to a federal tax holiday in Switzerland, which was finalized during the quarter ended March 31, 2019. The Company received a Switzerland federal tax credit of 12 million CHF, which can be used over a seven year period, ending in 2024.

As of March 31, 2019, the Company has not provided deferred income taxes on unrepatriated earnings from foreign subsidiaries as they are deemed indefinitely reinvested. Such taxes would primarily be attributable to foreign withholding taxes and local income taxes when such earnings are distributed. As such, the Company has determined the tax impact of repatriating these earnings would not be material as of March 31, 2019.

## 13. NET INCOME PER SHARE

Basic and diluted net income per share was as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (In thousands, except per share amounts) | |
| **Basic net income per share:** | | |
| Net income | $ 32,756 | $ 10,992 |
| Weighted average common shares outstanding | 85,343 | 78,552 |
| Basic net income per common share | $ 0.38 | $ 0.14 |
| | | |
| **Diluted net income per share:** | | |
| Net income | $ 32,756 | $ 10,992 |
| | | |
| Weighted average common shares outstanding — Basic | 85,343 | 78,552 |
| Effect of dilutive securities: | | |
| Stock options and restricted stock | 915 | 1,282 |
| Weighted average common shares for diluted earnings per share | 86,258 | 79,834 |
| | | |
| Diluted net income per common share | $ 0.38 | $ 0.14 |

Shares of common stock of approximately 0.3 million and 0.2 million at March 31, 2019 and 2018, respectively, that are issuable through the exercise of dilutive securities were not included in the computation of diluted net income per share because their effect would have been antidilutive.

Vested restricted and performance units that entitle the holders to approximately 0.5 million shares of common stock are included in the basic and diluted weighted average shares outstanding calculation because no further consideration is due related to the issuance of the underlying common shares.

## 14. COMPREHENSIVE INCOME

Comprehensive income was as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (In thousands) | |
| Net income | $ 32,756 | $ 10,992 |
| Foreign currency translation adjustment | (7,009) | 13,780 |
| Change in unrealized gain (loss) on derivatives, net of tax | (4,236) | 7,838 |
| Pension liability adjustment, net of tax | 9 | (6) |
| Comprehensive income, net | $ 21,520 | $ 32,604 |

Changes in Accumulated Other Comprehensive Income by component between December 31, 2018 and March 31, 2019 are presented in the table below, net of tax:

| | Gains and Losses on Derivatives | Defined Benefit Pension Items | Foreign Currency Items | Total |
|---|---|---|---|---|
| | (In thousands) | | | |
| Balance at January 1, 2019 | $ (4,813) | $ (736) | $ (39,894) | $ (45,443) |
| Other comprehensive income (loss) | 2,516 | 9 | (7,009) | (4,484) |
| Less: Amounts reclassified from accumulated other comprehensive income | 6,752 | — | — | 6,752 |
| Net current-period other comprehensive income (loss) | (4,236) | 9 | (7,009) | (11,236) |
| Balance at March 31, 2019 | $ (9,049) | $ (727) | $ (46,903) | $ (56,679) |

For the three months ended March 31, 2019, the Company reclassified gains of $4.0 million and $2.8 million from AOCI to other income (expenses), net, and interest income, respectively.

## 15. SEGMENT AND GEOGRAPHIC INFORMATION

The Company internally manages two global reportable segments and reports the results of its businesses to its chief operating decision maker. The two reportable segments and their activities are described below.

- The Codman Specialty Surgical segment includes (i) the Neurosurgery business, which sells a full line of products for neurosurgery and neuro critical care such as tissue ablation equipment, dural repair products, cerebral spinal fluid management devices, intracranial monitoring equipment, and cranial stabilization equipment and (ii) the precision tools and instruments business, which sells more than 60,000 instrument patterns and surgical and lighting products to hospitals, surgery centers, dental, podiatry, and veterinary offices.
- The Orthopedics and Tissue Technologies segment includes such offerings as skin and wound repair, bone and joint fixation implants in the upper and lower extremities, bone grafts and nerve and tendon repair products.

The Corporate and other category includes (i) various executive, finance, human resource, information systems, legal functions, (ii) brand management, and (iii) share-based compensation costs.

The operating results of the various reportable segments as presented are not comparable to one another because (i) certain operating segments are more dependent than others on corporate functions for unallocated general and administrative and/or operational manufacturing functions and (ii) the Company does not allocate certain manufacturing costs and general and administrative costs to the operating segment results. Net sales and profit by each reportable segment for the three months ended March 31, 2019 and 2018 are as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (In thousands) | |
| ***Segment Net Sales*** | | |
| Codman Specialty Surgical | $ 234,568 | $ 236,115 |
| Orthopedics and Tissue Technologies | 125,122 | 120,967 |
| Total revenues | $ 359,690 | $ 357,082 |
| ***Segment Profit*** | | |
| Codman Specialty Surgical | $ 91,380 | $ 89,491 |
| Orthopedics and Tissue Technologies | 40,495 | 32,438 |
| Segment profit | 131,875 | 121,929 |
| Amortization | (5,279) | (5,390) |
| Corporate and other | (94,288) | (90,960) |
| Operating income | $ 32,308 | $ 25,579 |

The Company does not allocate any assets to the reportable segments. No asset information is reported to the chief operating decision maker and disclosed in the financial information for each segment.

The Company attributes revenues to geographic areas based on the location of the customer. Total revenue by major geographic area consisted of the following:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (In thousands) | |
| United States | $ 256,726 | $ 248,928 |
| Europe | 48,640 | 51,773 |
| Asia Pacific | 35,700 | 35,785 |
| Rest of World | 18,624 | 20,596 |
| Total Revenues | $ 359,690 | $ 357,082 |

## 16. COMMITMENTS AND CONTINGENCIES

*Contingent Consideration*

The Company determined the fair value of contingent consideration during the three-month period ended March 31, 2019 and 2018 to reflect the change in estimates, additions, payments, transfers and the time value of money during the period.

A reconciliation of the opening balances to the closing balances of these Level 3 measurements for the three months ended March 31, 2019 and 2018 is as follows (in thousands):

| Three Months Ended March 31, 2019 | Contingent Consideration Liability Related to Acquisition of Derma |
|---|---|
| | Long-term |
| Balance as of January 1, 2019 | $ 230 |
| Balance as of March 31, 2019 | $ 230 |

| Three Months Ended March 31, 2018 | Contingent Considerations Liabilities Related to Acquisition of Derma | | Contingent Consideration Liability Related to Acquisition of Confluent Surgical, Inc. | Location in Financial Statements |
|---|---|---|---|---|
| | Short-term | Long-term | Short-term | |
| Balance as of January 1, 2018 | $ 315 | $ 1,387 | $ 22,478 | |
| Loss from change in fair value of contingent consideration liabilities | — | 32 | 1,422 | Selling, general and administrative |
| Balance as of March 31, 2018 | $ 315 | $ 1,419 | $ 23,900 | |

On January 15, 2014, the Company acquired all outstanding shares of Confluent Surgical, Inc., ("Confluent Surgical"). The purchase price includes contingent consideration. The potential maximum undiscounted contingent consideration of $30.0 million consists of $25.0 million upon obtaining certain U.S. governmental approvals (the "U.S. Contingent Consideration") and $5.0 million upon obtaining certain European governmental approvals, both related to the completion of the transition of the Confluent Surgical business. The U.S. Contingent Consideration is subject to adjustment to reduce the amount of maximum payment based on the timing of obtaining the U.S. governmental approval up to the minimum of $19.0 million. The fair values of contingent consideration related to the acquisition of Confluent Surgical were estimated using a discounted cash flow model using discount rate of 2.2%. During the first quarter of 2018, the Company received the U.S. governmental approvals and adjusted the related contingent consideration liability to $19.0 million, which the Company paid in April 2018. During the third quarter of 2018, the Company received certain European governmental approvals. The Company paid the remaining $5.0 million of contingent consideration related to Confluent Surgical in October of 2018.

The Company assumed contingent consideration incurred by Derma Sciences related to its acquisitions of BioD and the intellectual property related to the Medihoney product. The Company accounted for the contingent liabilities by recording their fair value on the date of the acquisition based on a discounted cash-flow model. The contingent liabilities recognized as part of the Derma Sciences acquisition relate to the following:

i. contractual incentive payments that could be made to former equity owners of BioD if net sales of BioD products exceed a certain amount for the twelve-month periods ending June 30, 2017 and 2018 ("BioD Earnout Payments");

ii. a contractual incentive payment that could be made to the former equity owners if there has been no specific enforcement action or notice by the FDA against the specific BioD products as a result of the Untitled Letter for a certain period after closing as defined by the agreement ("Product Payment"); and

iii. contractual incentive payments that could be made to the former owner of the intellectual property relating to the Medihoney product line, if net sales of Medihoney products exceed certain amounts defined in the agreement between Derma Sciences and the former owner of the intellectual property of Medihoney for any twelve-month period ("Medihoney Earnout Payments").

At the date of the acquisition, net sales used in estimating the BioD Earnout Payments was based on the weighted average of different possible scenarios using a revenue volatility of 13.5%. The BioD Earnout Payments were valued using a discount rate of 3.0%. The maximum payout related to the BioD Earnout Payments is $26.5 million. The estimated fair value as of February 24, 2017 was $9.1 million. In August 2017, the Company paid $4.8 million for the twelve-month period ending June 30, 2017 component of the BioD Earnout Payments. The Company made no additional payments after the final earn out period. The estimated fair value as of March 31, 2018 was $0.3 million.

On May 25, 2017, the Company made full payment for the Product Payment of $26.6 million.

At the date of the acquisition, the net sales used in estimating the Medihoney Earnout Payments were based on the weighted average of different possible scenarios using revenue volatility of 27.5%. The Medihoney Earnout Payments were valued using a discount rate of 4.5%. The maximum payout related to the Medihoney Earnout Payments is $5.0 million. During the second quarter of 2018, the Company paid $2.0 million for the Medihoney Earnout Payment. The estimated fair value as of March 31, 2019 and December 31, 2018 was $0.2 million. The estimated fair value as of March 31, 2018 was $1.4 million.

The Company assesses these assumptions on an ongoing basis as additional information affecting the assumptions is obtained. The contingent consideration balance was included in other liabilities at March 31, 2019 and accrued expenses and other current liabilities and other liabilities at March 31, 2018.

*BioD*

On April 7, 2017, the Company's indirect wholly-owned subsidiary, BioD filed an action in the Superior Court of New Jersey, Chancery Division, Middlesex County seeking a declaration that the resignation of Russell Olsen, the former CEO of BioD, was

“for Good Reason” (as defined in Olsen’s employment agreement); a finding that Olsen breached the implied covenant of good faith and fair dealing, committed legal fraud, equitable fraud and negligent misrepresentation; and an award of damages for such actions, including a return of severance fees paid to Olsen. BioD was acquired in August 2016 by Derma Sciences, which Integra subsequently acquired in February 2017. After receiving a job offer from Integra that Olsen believed materially diminished his title and authority, on February 24, 2017 Olsen indicated his intention to terminate his position with BioD for Good Reason, as otherwise permitted by his employment agreement with BioD. Shortly thereafter, Cynthia Weatherly (as representative of the former equity owners of BioD) claimed in a letter to Derma Sciences that Olsen’s resignation was a “termination Without Cause” (as also defined in Olsen’s employment agreement), which would arguably trigger an acceleration of the earn out under a merger agreement between Derma Sciences, BioD and other parties (the "BioD Merger Agreement"), which was entered into in July 2016, and require as a result of the acceleration of the payment of $26.5 million by BioD. Integra assumed this contingent liability in connection with its acquisition of Derma Sciences. The action for a declaratory judgment was filed to clarify that Olsen’s termination was for Good Reason and not Without Cause. If the employment agreement was terminated for Good Reason, then the Company believes that the earn out provision under the BioD Merger Agreement should not be accelerated.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related notes thereto appearing elsewhere in this report and our consolidated financial statements for the year ended December 31, 2018 included in our Annual Report on Form 10-K.

We have made statements in this report which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). These forward-looking statements are subject to a number of risks, uncertainties and assumptions about the Company and other matters. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those set forth under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018, and under the heading "Risk Factor" in this report. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

You can identify these forward-looking statements by forward-looking words such as “believe,” “may,” “might,” “could,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “seek,” “plan,” “expect,” “should,” “would” and similar expressions in this report.

### GENERAL

Integra, headquartered in Plainsboro, New Jersey, is a world leader in medical technology. The company was founded in 1989 with the acquisition of an engineered collagen technology platform used to repair and regenerate tissue. Since then, Integra has developed numerous product lines from this technology for applications ranging from burn and deep tissue wounds, to the repair of dura mater in the brain, and the repair of nerves and tendons. The company has expanded its base regenerative technology business to include surgical instruments, neurosurgical products, advanced wound care, and orthopedic hardware through a combination of several global acquisitions and by developing products internally to further meet the needs of its customers.

We manufacture and sell our products in two reportable business segments: Codman Specialty Surgical and Orthopedics and Tissue Technologies. Our Codman Specialty Surgical products offer specialty surgical implants and instrumentation for a broad range of specialties. This segment includes products and solutions for dural access and repair, precision tools and instruments, advanced energy, cerebral spinal fluid ("CSF") management and neuro monitoring including market-leading product portfolios used in neurosurgery operation suites and critical care units. Our Orthopedics and Tissue Technologies product portfolios consists of differentiated regenerative technology products for soft tissue repair and tissue regeneration products, and small bone fixation and joint replacement hardware products for both upper extremities and lower extremities. This business also includes private-label sales of a broad set of our regenerative and wound care medicine technologies.

We manufacture many of our products in facilities located in the United States (the "U.S."), Canada, France, Germany, Ireland, Switzerland, and Puerto Rico. We also source most of our handheld surgical instruments, specialty metal and pyrocarbon implants, and dural sealant products through specialized third-party vendors.

Codman Specialty Surgical products are sold through a combination of directly employed sales representatives, distributors and wholesalers, depending on the customer call point.

Orthopedics and Tissue Technologies products are sold through directly employed sales representatives, distributors focused on their respective surgical specialties, and strategic partners.

Integra is committed to delivering high quality products that positively impact the lives of millions of patients and their families. We focus on four key pillars of our strategy: 1) building an execution-focused culture, 2) achieving relevant scale, 3) improving agility and innovation, and 4) leading in customer experience. We believe that by sharpening our focus on these

areas through improved planning and communication, optimization of our infrastructure, and strategically aligned tuck-in acquisitions, we can build scale, increase competitiveness and achieve our long-term goals.

We aim to achieve growth in our revenues while maintaining strong financial results. While we pay attention to any meaningful trend in our financial results, we focus on measurements that are indicative of long-term profitable growth. These measurements include (1) revenue growth (including organic growth and acquisitions), (2) gross margins on total revenues, (3) earnings before interest, taxes, depreciation, and amortization, (4) earnings per diluted share of common stock, and (5) operating cash flows.

To this end, our executive leadership team has established the following key priorities aligned to the following areas of focus:

*Strategic Acquisitions.* An important part of our strategy is pursuing strategic transactions and licensing agreements that increase relevant scale in the clinical areas in which we compete. In 2019, integrating the Codman Neurosurgery business, which was acquired from Johnson and Johnson in 2017, remains a top priority. This acquisition expanded our portfolio of neurosurgery products and established us as the world leader in neurosurgery. It has also enabled us to bring our entire Integra portfolio to a global market.

*Portfolio Optimization and New Product Introductions.* We are investing in innovative product development to drive a multi-generational pipeline for our key product franchises. Our product development efforts focus on regenerative technologies and other projects with the potential for significant returns on investment. In 2018, we achieved significant milestones in research and development by successfully launching nine new products. In addition to new product development, we are funding studies to gather clinical evidence to support launches, ensure market access and improve reimbursement for existing products. We also continue to identify low-growth, low-margin products and product franchises for discontinuation and will continue to look at other ways of optimizing our portfolio.

*Commercial Channel Investments.* With acquisitions, new product introductions and a broader portfolio of products, investing in our sales channels is a core part of our strategy to create specialization and greater focus on reaching our customers and addressing their needs. Internationally, we have increased our commercial resources significantly in all markets and are making investments to support our sales organization and maximize our commercial opportunities. We now have a strong international sales channel that will deliver our current portfolio as well as position us for expansion. In addition, we continue to build upon our leadership brands across our product franchises to enable us to engage hospital systems through enterprise-wide contracts.

*Customer Experience.* We aspire to be ranked as a best-in-class provider and are committed to strengthen our relationships with all customers. We strive to consistently deliver outstanding customer service and continue to invest in technologies, systems and processes to improve the way our customers do business with us. Additionally, we expect to build on the success of our professional education programs to drive continued customer appreciation of our growing portfolio of medical technologies globally.

**Equity Offering**

In May 2018, the Company commenced and closed on a public offering of common stock. The Company issued 6.0 million shares of common stock and received total proceeds, net of underwriting fees and offering expenses of approximately $349.6 million. The net proceeds from the offering were used to reduce outstanding borrowings under the revolving credit portion of the Company's Senior Credit Facility.

**Clinical and Product Development Activities**

We continue to invest in collecting clinical evidence to support our existing products and new product launches, and to ensure that we obtain market access for broader and more cost-effective solutions. In 2018, we launched the CUSA® Clarity ultrasonic tissue ablation platform in Japan, Xtrasorb® Gentle Tack Silicone Foam Dressing, SurgiMend® MP Collagen Matrix, and Integra® Meshed Dermal Regeneration Template outside the U.S., and AmnioExcel® Plus Amniotic Allograft Membrane, Integra® XT Revision Total Ankle Replacement System, and Panta® II TTC Arthrodesis Nail System in the U.S. We continue to work on advanced shoulder products and are developing a pyrocarbon shoulder hemiarthroplasty product to add to our orthopedic reconstruction portfolio. We launched the Panta II system outside the U.S. during the first quarter of 2019. The Panta II system is a new fusion nail used in ankle fixation. In our electromechanical technologies portfolio, we are focused on the development of core clinical applications and anticipate a steady flow of product launches in early 2019, including the introduction of a new electrosurgery generator, a next generation ICP monitoring platform and an innovative customer-centric toolkit for our Certas™ Plus Programmable Valve along with additional shunt configurations. We continue to work with several instrument partners to bring new surgical instrument patterns to the market, enabling us to add new instruments with minimal expense and invest in ongoing development, such as in LED technology. Updates to our CUSA Clarity platform incorporate new ultrasonic tips and integrated electrosurgical capabilities.

**FDA Matters**

On June 22, 2015, the FDA issued an Untitled Letter (the "Untitled Letter") alleging that BioD LLC's ("BioD") morselized amniotic membrane tissue based products do not meet the criteria for regulation as HCT/Ps solely under Section 361 of the Public Health Services Act ("Section 361") and that, as a result,the morselized amniotic membrane tissue products would be regulated as a Drug or Biologic. Since the issuance of the Untitled Letter, BioD and more recently the Company have been in discussions with the FDA to communicate their disagreement with the FDA's assertion that certain products are more than minimally manipulated. The FDA has not changed its position that certain of the BioD acquired products are not eligible for marketing solely under Section 361. In November 2017, the FDA issued the final guidance document related to human tissue titled, "Regulatory Considerations for Human Cells, Tissues, and Cellular and Tissue-Based Products: Minimal Manipulation and Homologous Use" (the "HCT/P Final Guidance"). The HCT/P Final Guidance maintains the FDA's position that products such as the Company's morselized amniotic membrane tissue-based products do not meet the criteria for regulation solely as HCT/Ps. In addition, the FDA articulated a risk-based approach to enforcement and, while some uses for amniotic membrane tissue-based products would have as much as thirty-six months of enforcement discretion, other high risk uses could be subject to immediate enforcement action. The Company does not believe the uses for its amniotic membrane tissue-based products fall into the high-risk category. As of March 31, 2019, the Company has not received any further notice of enforcement action from the FDA regarding its morselized amniotic tissue-based products. Nonetheless, we can make no assurances that the FDA will continue to exercise its enforcement discretion with respect to the Company's morselized amniotic membrane tissue-based products, and any potential action of the FDA could have a financial impact regarding the sales of such products. The Company has been considering and continues to consider regulatory approval pathways for its morselized amniotic membrane tissue-based products.

Revenues from BioD morselized amniotic membrane based products for the three months ended March 31, 2019 were less than 1.0% of consolidated revenues.

On March 7, 2019, a subsidiary of the Company received a Warning Letter (the "Warning Letter"), dated March 6, 2019, from the United States Food and Drug Administration (the "FDA"). The warning letter relates to quality systems issues at our manufacturing facility located in Boston, Massachusetts. The letter resulted from an inspection held at that facility in October and November 2018 and did not identify any new observations that were not already provided in the Form 483 that followed the inspection. The Company has provided detailed responses to the FDA as to its corrective actions on a monthly basis and, since the conclusion of the inspection, has undertaken significant efforts to remediate the observations and continues to do so. The warning letter does not restrict the Company's ability to manufacture or ship products or require the recall of any products. Nor does it restrict our ability to seek FDA 510(k) clearance of products. The letter states that requests for Certificates to Foreign Governments will not be granted until the violations have been corrected. Additionally, premarket approval applications for Class III devices to which the Quality System regulation violations are reasonably related will not be approved until the violations have been corrected. The Boston facility manufactures extracellular bovine matrix (EBM) products. The Company does not expect to incur material incremental expense for remediation activities. The Company submitted its initial response to the FDA Warning Letter on March 28, 2019. We cannot, however, give any assurances that the FDA will be satisfied with our response to the letter or as to the expected date of the resolution of the matters included in the letter. Until the issues cited in the letter are resolved to the FDA's satisfaction, the FDA may initiate additional regulatory action without further notice. Any adverse regulatory action, depending on its magnitude, may restrict us from effectively manufacturing, marketing and selling our products and could have a material adverse effect on our business, financial condition and results of operations.

Revenues of products manufactured in the Boston facility for the three months ended March 31, 2019 were approximately 4% of consolidated revenues.

**RESULTS OF OPERATIONS**

**Executive Summary**

Net income for the three months ended March 31, 2019 was $32.8 million, or $0.38 per diluted share, as compared to $11.0 million or $0.14 per diluted share for the three months ended March 31, 2018.

The increase in net income from the same period last year resulted from higher sales, improved margin, a reduction in interest expense and a tax benefit from the Switzerland tax holiday. Operating expenses decreased from the same period last year primarily as a result of one-time costs associated with the acquisition of Codman Neurosurgery included in net income for the three months ended March 31, 2018.

Income before taxes includes the following special charges:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (In thousands) | |
| Acquisition and integration-related charges | $ 19,463 | $ 28,886 |
| Structural optimization charges | 4,797 | 1,603 |
| Discontinued product lines | 1,400 | — |
| Litigation matters | 1,249 | — |
| EU medical device regulation | 1,109 | — |
| Total | $ 28,018 | $ 30,489 |

The items reported above are reflected in the condensed consolidated statements of operations as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (In thousands) | |
| Cost of goods sold | $ 3,883 | $ 13,292 |
| Research and development | 1,675 | — |
| Selling, general and administrative | 22,460 | 17,197 |
| Total | $ 28,018 | $ 30,489 |

We typically define special charges as items for which the amounts and/or timing of such expenses may vary significantly from period to period, depending upon our acquisition, integration and restructuring activities, and for which the amounts are non-cash in nature, or for which the amounts are not expected to recur at the same magnitude. We believe that given our ongoing strategy of seeking acquisitions, our continuing focus on rationalizing our existing manufacturing and distribution infrastructure and our continuing review of various product lines in relation to our current business strategy, some of the special charges discussed above could recur with similar materiality in the future.

We believe that the separate identification of these special charges provides important supplemental information to investors regarding financial and business trends relating to our financial condition and results of operations. Investors may find this information useful in assessing comparability of our operating performance from period to period, assessing the objectives that management has established, and against other companies in our industry. We provide this information to investors so that they can analyze our operating results in the same way that management does and to use this information in their assessment of our core business and valuation of Integra.

**Revenues and Gross Margin on Product Revenues**

Our revenues and gross margin on product revenues were as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| ***Segment Net Sales*** | (Dollars in thousands) | |
| Codman Specialty Surgical | $ 234,568 | $ 236,115 |
| Orthopedics & Tissue Technologies | 125,122 | 120,967 |
| Total revenue | 359,690 | 357,082 |
| Cost of goods sold | 128,912 | 144,222 |
| Gross margin on total revenues | $ 230,778 | $ 212,860 |
| Gross margin as a percentage of total revenues | 64.2% | 59.6% |

**Three Months Ended March 31, 2019 as Compared to Three Months Ended March 31, 2018**

**Revenues and Gross Margin**

For the three months ended March 31, 2019, total revenues increased by $2.6 million to $359.7 million from $357.1 million for the same period in 2018. Domestic revenues increased $7.8 million, or 3.1%, to $256.7 million and were 71.4% of total revenues for the three months ended March 31, 2019. International revenues decreased by $5.2 million to $103.0 million for the three months ended March 31, 2019 compared to $108.2 million during the same period in the prior year. The net increase of $2.6 million was a result of growth in both segments of $11.0 million offset by a $5.3 million unfavorable impact of foreign exchange, which mainly impacts the Codman Specialty Surgical segment and a $3.1 million unfavorable impact due to discontinued and divested products.

Codman Specialty Surgical revenues were $234.6 million, a decrease of 0.7% from the prior-year period. The decrease primarily resulted from sales of our Neuro Monitoring products, which declined high-single digits compared to the prior year. These decreases were offset by growth in our Dural Repair and Programmable Valve products. Our Dural Repair products achieved low-single digit growth driven by DuraSeal and DuraGen compared to the same period last year. Our Programmable Valve products achieved mid-single digit growth driven by new product introductions. Precision Tools and Instruments revenue decreased low-single digits compared to the same period last year primarily due to revenue declines in our stereotaxy and dental product lines.

Orthopedics and Tissue Technologies revenues were $125.1 million, an increase of 3.4% from the prior-year period. In our Wound Reconstruction and Care portfolio used in inpatient and outpatient procedures, sales of our core tissue products including, PriMatrix, SurgiMend, and amniotic tissue products all increased high-single or low double-digits. Private Label increased by mid-single digits over the prior period due to the timing of customer orders. Extremity Orthopedic sales growth was flat compared to the same period last year. Sales growth in our ankle and shoulder products were offset by declines in other lower extremity products.

Gross margin increased to $230.8 million for the three-month period ended March 31, 2019, an increase of $17.9 million from $212.9 million for the same period last year. Gross margin as a percentage of total revenue increased to 64.2% for the first quarter of 2019 from 59.6% in the same period last year. The increase in gross margin percentage resulted primarily from one time costs associated with the acquisition of Codman Neurosurgery that were included in the three-month period ended March 31, 2018 but are not included in the three-month period ended March 31, 2019. Improved sales mix and manufacturing yields also contributed to an increase in gross margin for the three-month period ended March 31, 2019.

**Operating Expenses**

The following is a summary of operating expenses as a percent of total revenues:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Research and development | 5.1% | 5.1% |
| Selling, general and administrative | 48.6% | 45.8% |
| Intangible asset amortization | 1.5% | 1.5% |
| Total operating expenses | 55.2% | 52.4% |

Total operating expenses, which consist of research and development expenses, selling, general and administrative expenses, and amortization expense, increased $11.2 million, or 6.0%, to $198.5 million in the three months ended March 31, 2019, compared to $187.3 million in the same period last year.

Selling, general and administrative expenses in the first quarter of 2019 increased by $11.3 million to $174.9 million compared to $163.6 million in the same period last year. Selling and marketing expenses increased by $5.1 million compared to the first quarter last year, primarily resulting from channel expansion. General and administrative costs increased by $6.2 million primarily from costs related to structural optimization.

**Non-Operating Income and Expenses**

The following is a summary of non-operating income and expenses:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (In thousands) | |
| Interest income | $ 2,428 | $ 76 |
| Interest expense | (13,149) | (18,768) |
| Other income (expense), net | 3,236 | 2,245 |

**Interest Income and Interest Expense**

Interest expense for the three months ended March 31, 2019 decreased by $5.6 million, primarily resulting from a decrease in our outstanding balance on our Senior Credit Facility of $1.3 billion compared to a balance of $1.8 billion as of March 31, 2018. The weighted average interest rate for the three months ended March 31, 2019 increased nominally to 3.8% compared to 3.7% for the same period in the prior year.

Interest income for the three months ended March 31, 2019 increased by $2.4 million compared to 2018 primarily due to the interest rate differential on cross-currency swaps designated as net investment hedges that were entered into during the fourth quarter of 2018.

**Other Income, net**

Other income, net for the three months ended March 31, 2019 increased by $1.0 million compared to the same period last year primarily driven from net transactional foreign exchange gains.

**Income Taxes**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (In thousands) | |
| Income before income taxes | $ 24,823 | $ 9,132 |
| Income tax (benefit) expense | (7,933) | (1,860) |
| Effective tax rate | (32.0)% | (20.4)% |

The Company's effective income tax rates for the three months ended March 31, 2019 and 2018 were (32.0)% and (20.4)%, respectively. For the three months ended March 31, 2019, the primary driver of the reduction in the rate is a tax benefit of $10.8 million related to a federal tax holiday in Switzerland, which was finalized during the quarter ended March 31, 2019. The Company received a Switzerland federal tax credit of 12 million CHF, which can be used over a seven-year period, ending in 2024. Additionally, the Company recorded an expense of $1.2 million, related to the revaluation of deferred taxes to the new Switzerland effective tax rate of 10.8%, as a result of the tax holiday.

The Company expects its effective income tax rate for the full year to be approximately 10%, driven primarily by the excess tax benefit from share-based compensation, the Switzerland tax holiday, and a favorable jurisdictional mix of pretax income in foreign operations relative to U.S.-based operations. This estimate could be revised in the future as additional information is presented to the Company.

The effective tax rate may vary from period to period depending on, among other factors, the geographic and business mix of taxable earnings and losses, tax planning and settlements with various taxing authorities. We consider these factors and others, including our history of generating taxable earnings, in assessing our ability to realize tax assets on a quarterly basis.

While it is often difficult to predict the final outcome or the timing of resolution of any particular matter with the various Federal, state, and foreign tax authorities, we believe that our reserves reflect the most probable outcome of known tax contingencies. Settlement of any particular issue would usually require the use of cash. Favorable resolution would be recognized as a reduction to our annual effective tax rate in the year of resolution. The tax reserves are presented in the balance sheet within other liabilities, except for amounts relating to items that we expect to pay in the coming year, which would be classified as current income taxes payable.

## GEOGRAPHIC PRODUCT REVENUES AND OPERATIONS

We attribute revenues to geographic areas based on the location of the customer. Total revenue by major geographic area consisted of the following:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (In thousands) | |
| United States | $ 256,726 | $ 248,928 |
| Europe | 48,640 | 51,773 |
| Asia Pacific | 35,700 | 35,785 |
| Rest of World | 18,624 | 20,596 |
| Total Revenues | $ 359,690 | $ 357,082 |

We generate significant revenues outside the U.S., a portion of which are U.S. dollar-denominated transactions conducted with customers who generate revenue in currencies other than the U.S. dollar. As a result, currency fluctuations between the U.S. dollar and the currencies in which those customers do business could have an impact on the demand for our products in foreign countries. Local economic conditions, regulatory compliance or political considerations, the effectiveness of our sales representatives and distributors, local competition and changes in local medical practice all may combine to affect our sales into markets outside the U.S.

Domestic revenues increased to $256.7 million, or 71% of total revenues, for the three months ended March 31, 2019 from $248.9 million, or 70% of total revenues for the three months ended March 31, 2018. Growth in domestic revenues was driven by Dural Repair, Integra skin, and amniotic tissue. European sales decreased by $3.1 million for the three months ended March 31, 2019 compared to the same period last year, resulting primarily from a decrease in revenues for Precision Tools and Instruments and an unfavorable impact of foreign exchange. Sales to customers in Asia Pacific and the Rest of the World for the three months ended March 31, 2019 decreased by $2.1 million compared to the same period last year primarily driven by an unfavorable impact of foreign exchange. Foreign exchange fluctuations on international revenues in total had an unfavorable impact of $5.3 million for the three months ended March 31, 2019 compared to the same period in 2018.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash and Marketable Securities

We had cash and cash equivalents totaling approximately $157.0 million and $138.8 million at March 31, 2019 and December 31, 2018, respectively, which are valued based on Level 1 measurements in the fair value hierarchy. At March 31, 2019, our non-U.S. subsidiaries held approximately $130.0 million of cash and cash equivalents that are available for use outside the U.S. The Company asserts that it has the ability and intends to indefinitely reinvest the undistributed earnings from its foreign operations unless there is a tax-free manner under which to remit the earnings.

### Cash Flows

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (In thousands) | |
| Net cash provided by operating activities | $ 29,484 | $ 41,531 |
| Net cash used in investing activities | (15,806) | (9,298) |
| Net cash provided by (used in) financing activities | 5,393 | (20,886) |
| Effect of exchange rate fluctuations on cash | (884) | 3,114 |

### Cash Flows Provided by Operating Activities

We generated operating cash flows of $29.5 million for the three months ended March 31, 2019, a decrease of $12.0 million from $41.5 million for the same period in 2018. Net income after non-cash adjustments increased for the three months ended March 31, 2019 by approximately $15.8 million compared to the same period in 2018, which resulted primarily from increased sales and an improvement in our gross margin compared to 2018. The changes in assets and liabilities, net of business acquisitions, decreased cash flows from operating activities by $29.5 million for the three months ended March 31, 2019 compared to a decrease of $1.7 million for the same period in 2018. The decrease is primarily driven by increased investment in inventories and growth in accounts receivable in foreign jurisdictions with increased payment terms.

**Cash Flows Used in Investing Activities**

During the three months ended March 31, 2019, we paid $16.1 million for capital expenditures, most of which were directed to our new Mansfield, Massachusetts facility, and commercial expansion.

During the three months ended March 31, 2018, we paid $15.4 million for capital expenditures, most of which were directed to the expansion of a manufacturing facility and commercial expansion. We received $5.7 million from the Codman Neurosurgery acquisition for a working capital adjustment.

**Cash Flows Provided by (Used in) Financing Activities**

Our principal sources of cash from financing activities in the three months ended March 31, 2019 were $67.2 million from borrowings under our Senior Credit Facility and Securitization Facility. These were offset by repayments of $57.4 million on the revolving portion of our Senior Credit Facility and Securitization Facility and $6.2 million cash taxes paid in net equity settlement.

Our principal source of cash from financing activities in the three months ended March 31, 2018 were $25.0 million in borrowings under our Senior Credit Facility. These were offset by repayments of $35.0 million on the revolving portion of our Senior Credit Facility and $6.8 million cash taxes paid in net equity settlement.

**Upcoming Debt Maturities**

The first quarterly installment of the Company's Term Loan component of its Senior Credit Facility is due on September 30, 2019. The Company recorded $33.8 million as a current liability in the Company's consolidated balance sheet.

**Amended and Restated Senior Credit Agreement and Related Hedging Activities**

See Note 6 - *Debt* to the current period’s condensed consolidated financial statements for a discussion of our amended and restated Senior Credit Agreement and Note 7 - *Derivative Instruments* for discussion of our hedging activities.

**Share Repurchase Plan**

On December 11, 2018, the Board of Directors authorized the Company to repurchase up to $225.0 million of the Company’s common stock. The program allows the Company to repurchase its shares opportunistically from time to time. The repurchase authorization expires in December 2020. Purchases may be affected through one or more open market transactions, privately negotiated transactions, transactions structured through investment banking institutions, or a combination of the foregoing. This stock repurchase authorization replaces the previous $150.0 million stock repurchase authorization, approved by the Board in 2016.

The Company has not repurchased any shares of common stock under these authorizations through March 31, 2019.

**Dividend Policy**

We have not paid any cash dividends on our common stock since our formation. Our Senior Credit Facility limits the amount of dividends that we may pay. Any future determinations to pay cash dividends on our common stock will be at the discretion of our Board of Directors and will depend upon our financial condition, results of operations, cash flows and other factors deemed relevant by the Board of Directors.

**Capital Resources**

We believe that our cash and available borrowings under the Senior Credit Facility are sufficient to finance our operations and capital expenditures for the foreseeable future. Our future capital requirements will depend on many factors, including the growth of our business, the timing and introduction of new products and investments, strategic plans and acquisitions, among others. Additional sources of liquidity available to us include short term borrowings and the issuance of long term debt and equity securities.

**Off-Balance Sheet Arrangements**

The Company has no off–balance sheet financing arrangements during the three months ended March 31, 2019 that have or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our interests.

**Contractual Obligations and Commitments**

As of March 31, 2019, we were obligated to pay the following amounts under various agreements:

| | Payments Due by Calendar Year | | | | |
|---|---|---|---|---|---|
| | Total | Remaining 2019 | 2020-2021 | 2022-2023 | Thereafter |
| | | | (In millions) | | |
| Revolving Credit Facility (1) | $ 350.0 | $ — | $ — | $ 350.0 | $ — |
| Term Loan | 900.0 | 22.5 | 101.2 | 776.3 | — |
| Securitization Facility (1) | 126.0 | — | 126.0 | — | — |
| Interest (2) | 136.0 | 34.5 | 63.9 | 37.6 | — |
| Employment Agreements (3) | 2.0 | 1.0 | 1.0 | — | — |
| Operating Leases (4) | 165.8 | 11.9 | 27.5 | 24.4 | 102.0 |
| Purchase Obligations | 13.8 | 13.7 | 0.1 | — | — |
| Other | 5.3 | 0.8 | 1.0 | 1.3 | 2.2 |
| Total | $ 1,698.9 | $ 84.4 | $ 320.7 | $ 1,189.6 | $ 104.2 |

(1) The Company may borrow and make payments against the revolving credit portion of its Senior Credit Facility and Securitization Facility from time to time and considers all of the outstanding amounts to be long term based on its current intent and ability to repay the borrowing outside of the next twelve-month period.

(2) Interest is calculated on the term loan portion of the Senior Credit Facility based on current interest rates paid by the Company. As the revolving credit facility and Securitization Facility can be repaid at any time, no interest has been included in the calculation.

(3) Amounts shown under Employment Agreements do not include compensation resulting from a change in control.

(4) During 2018, the Company entered into a lease for a new corporate headquarters in Princeton, NJ which is expected to commence during the second quarter of 2019. Total payments over the lease term are approximately $67.0 million. The payments are included in the table above.

The Company has excluded its contingent consideration obligation and related to a prior acquisition from the contractual obligations table above; this liability had a total estimated fair value of $0.2 million at March 31, 2019. This liability has been excluded because the amount to be paid and the potential payment date is not fixed.

The Company has excluded its option to acquire Integrated Shoulder Collaboration Inc., which becomes mandatory upon achievement of a certain sales threshold. This liability has been excluded because the amount to be paid and the potential payment date is not fixed.

The Company has excluded its future pension contribution obligations from the table above. This has been excluded because the future amounts to be paid and the potential payment dates are not fixed. As of March 31, 2019, the Company anticipates contributing $1.9 million to its defined benefit plans in 2019.

The Company has excluded the liability for uncertain tax benefits from the contractual obligations table above, including interest and penalties, totaling $0.7 million at March 31, 2019. This liability for uncertain tax benefits has been excluded because we cannot make a reliable estimate of the period in which the uncertain tax benefits may be realized.

## OTHER MATTERS

### Critical Accounting Estimates

The critical accounting estimates included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 have not materially changed.

### Recently Issued Accounting Standards

Information regarding new accounting pronouncements is included in Note 1 - *Basis of Presentation* to the current period's condensed consolidated financial statements.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks, including changes in foreign currency exchange rates and interest rates that could adversely affect our results of operations and financial condition. To manage the volatility relating to these typical business exposures, we may enter into various derivative transactions when appropriate. We do not hold or issue derivative instruments for trading or other speculative purposes.

**Foreign Currency Exchange and Other Rate Risks**

We operate on a global basis and are exposed to the risk that changes in foreign currency exchange rates could adversely affect our financial condition, results of operations and cash flows. We are primarily exposed to foreign currency exchange rate risk with respect to transactions and net assets denominated in Euros ("EUR"), British pounds ("GBP"), Swiss francs ("CHF"), Canadian dollars, Japanese yen, Mexican pesos, Brazilian reais, Australian dollars and Chinese yuan. We manage the foreign currency exposure centrally, on a combined basis, which allows us to net exposures and to take advantage of any natural offsets. To mitigate the impact of currency fluctuations on transactions denominated in nonfunctional currencies, we periodically enter into derivative financial instruments in the form of foreign currency exchange forward contracts with major financial institutions. We temporarily record realized and unrealized gains and losses on these contracts that qualify as cash flow hedges in other comprehensive income, and then recognize them in other income or expense when the hedged item affects net earnings.

From time to time, we enter into foreign currency forward exchange contracts to manage currency exposures for transactions denominated in a currency other than an entity's functional currency. As a result, the impact of foreign currency gains/losses recognized in earnings are partially offset by gains/losses on the related foreign currency forward exchange contracts in the same reporting period.

On October 1, 2018, the Company entered into cross-currency swap agreements designated as net investment hedges to partially offset the effects of foreign currency translation on foreign subsidiaries. The total notional amount of our instruments designated as net investment hedges at March 31, 2019 were $354.5 million and GBP 128.3 million. Under the terms of these contracts, which have been designated as net investment hedges, we will make interest payments in GBP and receive interest in U.S. dollars and GBP. Upon the maturity of these contracts, the Company will pay the notional amounts in EUR, GBP and CHF and receive U.S. dollars and GBP from the counterparties.

On October 2, 2017, we entered into cross currency swap agreements to convert a notional amount of $300.0 million equivalent to 291.2 million of Swiss Franc denominated intercompany loans into U.S. dollars. The CHF denominated intercompany loans were the result of the purchase of intellectual property by a subsidiary in Switzerland as part of the Codman Acquisition. The objective of these cross-currency swaps is to reduce volatility of earnings and cash flows associated with changes in the foreign currency exchange rate. Under the terms of these contracts, which have been designated as cash flow hedges, we will make interest payments in CHF and receive interest in U.S. dollars. Upon the maturity of these contracts, the Company will pay the principal amount of the loans in Swiss Francs and receive U.S. dollars from the counterparties. The total notional amount of our cross-currency swap agreements designated as cash flow hedges at March 31, 2019 were $266.7 million.

During the three months ended March 31, 2019, the Company settled a cross-currency swap designated as a cash flow hedge of an intercompany loan with an aggregate notional amount of $33.3 million. The original termination date was October 2, 2020, however, as the intercompany loan settlement was consummated during the three months ended March 31, 2019, the cross-currency swap was settled simultaneously. As a result of the settlement, the Company recorded a loss of $0.4 million in other income, net in the consolidated statement of operations.

We maintain written policies and procedures governing our risk management activities. With respect to cash flow hedges, changes in cash flows attributable to hedged transactions are generally expected to be completely offset by changes in the fair value of hedge instruments. Consequently, foreign currency exchange contracts would not subject us to material risk resulting from exchange rate movements, because gains and losses on these contracts offset gains and losses on the assets, liabilities or transactions being hedged.

The results of operations discussed herein have not been materially affected by inflation.

**Interest Rate Risk**

*Cash and Cash Equivalents* - We are exposed to the risk of interest rate fluctuations on the interest income earned on our cash and cash equivalents. A hypothetical 100 basis point movement in interest rates applicable to our cash and cash equivalents outstanding at March 31, 2019 would increase interest income by approximately $1.6 million on an annual basis. No significant decrease in interest income would be expected as our cash balances are earning interest at rates of approximately one basis point. We are subject to foreign currency exchange risk with respect to cash balances maintained in foreign currencies.

*Debt* - Our interest rate risk relates primarily to U.S. dollar LIBOR-indexed borrowings. We use interest rate derivative instruments to manage our earnings and cash flow exposure to changes in interest rates. This interest rate swap fixes the interest rate on a

portion of our expected LIBOR-indexed floating-rate borrowings. See Note 7, *Derivative Instruments*, for the details of interest rate swaps.

The total notional amount of interest rate swaps in effect as of March 31, 2019 was $900 million. Based on our outstanding borrowings at March 31, 2019, a 100 basis points change in interest rates would have impacted interest expense on the unhedged portion of the debt by $4.6 million on an annualized basis.

## ITEM 4. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our Exchange Act report is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Management has designed our disclosure controls and procedures to provide reasonable assurance of achieving the desired control objectives.

As required by Exchange Act Rule 13a-15(b), we have carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2019. Based upon this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2019 to provide such reasonable assurance.

### Changes in Internal Control Over Financial Reporting

During the first quarter of 2019, we implemented new internal controls to support adoption of the new lease accounting standard ASU No. 2016-02, Leases (Topic 842). There were no other changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

In response to business integration activities, the Company has and will continue to further align and streamline the design and operation of the financial control environment to be responsive to the changing business model.

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

The Company is subject to various claims, lawsuits and proceedings in the ordinary course of the Company's business, including claims by current or former employees, distributors and competitors and with respect to its products and product liability claims, lawsuits and proceedings, some of which have been settled by the Company. In the opinion of management, such claims are either adequately covered by insurance or otherwise indemnified, or are not expected, individually or in the aggregate, to result in a material adverse effect on our financial condition. However, it is possible that the Company's results of operations, financial position and cash flows in a particular period could be materially affected by these contingencies.

*BioD*

On April 7, 2017, the Company's indirect wholly-owned subsidiary, BioD filed an action in the Superior Court of New Jersey, Chancery Division, Middlesex County seeking a declaration that the resignation of Russell Olsen, the former CEO of BioD, was "for Good Reason" (as defined in Olsen's employment agreement); a finding that Olsen breached the implied covenant of good faith and fair dealing, committed legal fraud, equitable fraud and negligent misrepresentation; and an award of damages for such actions, including a return of severance fees paid to Olsen. BioD was acquired in August 2016 by Derma Sciences, which Integra subsequently acquired in February 2017. After receiving a job offer from Integra that Olsen believed materially diminished his title and authority, on February 24, 2017 Olsen indicated his intention to terminate his position with BioD for Good Reason, as otherwise permitted by his employment agreement with BioD. Shortly thereafter, Cynthia Weatherly (as representative of the former equity owners of BioD) claimed in a letter to Derma Sciences that Olsen's resignation was a "termination Without Cause" (as also defined in Olsen's employment agreement), which would arguably trigger an acceleration of the earn out under a merger agreement between Derma Sciences, BioD and other parties (the "BioD Merger Agreement"), which was entered into in July 2016, and require as a result of the acceleration of the payment of $26.5 million by BioD. Integra assumed this contingent liability in connection with its acquisition of Derma Sciences. The action for a declaratory judgment was filed to clarify that Olsen's termination was for Good Reason and not Without Cause. If the employment agreement was terminated for Good Reason, then the Company believes that the earn out provision under the BioD Merger Agreement should not be accelerated.

The Company accrues for loss contingencies when it is deemed probable that a loss has been incurred and that loss is estimable. The amounts accrued are based on the full amount of the estimated loss before considering insurance proceeds, and do not include an estimate for legal fees expected to be incurred in connection with the loss contingency. The Company consistently accrues legal fees expected to be incurred in connection with loss contingencies as those fees are incurred by outside counsel as a period cost.

**ITEM 1A. RISK FACTORS**

There have been no material changes in the Company's risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

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

There were no repurchases of our common stock under the repurchase program during the three months ended March 31, 2019.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

Reference is hereby made to the Exhibit Index on page 40.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**INTEGRA LIFESCIENCES HOLDINGS CORPORATION**

| | | |
|---|---|---|
| Date: | April 29, 2019 | /s/ Peter J. Arduini<br>Peter J. Arduini<br>President and Chief Executive Officer<br>(Principal Executive Officer) |
| Date: | April 29, 2019 | /s/ Glenn G. Coleman<br>Glenn G. Coleman<br>Corporate Vice President and Chief Financial Officer<br>(Principal Financial Officer) |
| Date: | April 29, 2019 | /s/ Jeffrey A. Mosebrook<br>Jeffrey A. Mosebrook<br>Vice President, Corporate Controller<br>(Principal Accounting Officer) |

Exhibits

| | |
|---|---|
| *31.1 | Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| *31.2 | Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| *32.1 | Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| *32.2 | Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| *†101.INS | XBRL Instance Document |
| *†101.SCH | XBRL Taxonomy Extension Schema Document |
| *†101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| *†101.DEF | XBRL Definition Linkbase Document |
| *†101.LAB | XBRL Taxonomy Extension Labels Linkbase Document |
| *†101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

* Filed herewith

† The financial information of Integra LifeSciences Holdings Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 filed on April 29, 2019 formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Operations and Comprehensive Income, (ii) the Condensed Consolidated Balance Sheets, (iii) Parenthetical Data to the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements, is furnished electronically herewith.

**Exhibit 31.1**

**Certification of Principal Executive Officer**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Peter J. Arduini, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Integra LifeSciences Holdings Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 29, 2019

/s/ Peter J. Arduini

Peter J. Arduini

*President and Chief Executive Officer*

**Exhibit 31.2**

**Certification of Principal Financial Officer**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Glenn G. Coleman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Integra LifeSciences Holdings Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 29, 2019

/s/ Glenn G. Coleman

Glenn G. Coleman

*Corporate Vice President and Chief Financial Officer*

**Exhibit 32.1**

**Certification of Principal Executive Officer**
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Peter J. Arduini, President and Chief Executive Officer of Integra LifeSciences Holdings Corporation (the "Company"), hereby certify that, to my knowledge:

1. The Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2019 (the "Report") fully complies with the requirement of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 29, 2019

/s/ Peter J. Arduini

Peter J. Arduini

*President and Chief Executive Officer*

**Exhibit 32.2**

**Certification of Principal Financial Officer**
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Glenn G. Coleman, Corporate Vice President and Chief Financial Officer of Integra LifeSciences Holdings Corporation (the "Company"), hereby certify that, to my knowledge:

1. The Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2019 (the "Report") fully complies with the requirement of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 29, 2019

/s/ Glenn G. Coleman

Glenn G. Coleman

*Corporate Vice President and Chief Financial Officer*