UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2023
or

☐ **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. 000-26224

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

Delaware **(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)**	**51-0317849** **(I.R.S. EMPLOYER IDENTIFICATION NO.)**
1100 Campus Road **Princeton , New Jersey** **(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)**	**08540** **(ZIP CODE)**

Registrant's Telephone Number, Including Area Code: (609) 275-0500

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report:

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	TRADING SYMBOL	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, Par Value $.01 Per Share	IART	Nasdaq Global Select Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

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. ☐

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

The number of shares of the registrant’s Common Stock, $0.01 par value, outstanding as of July 26, 2023 was 81,403,831.

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Total revenue, net	$ 381,267	$ 397,815	$ 762,113	$ 774,453
Costs and expenses:				
Cost of goods sold	174,241	148,404	322,216	290,973
Research and development	26,588	25,589	53,312	49,674
Selling, general and administrative	164,908	160,651	331,565	320,577
Intangible asset amortization	3,026	3,304	6,134	7,198
Total costs and expenses	368,763	337,948	713,227	668,422
Operating income	12,504	59,867	48,886	106,031
Interest income	3,939	1,965	8,046	3,342
Interest expense	(12,464)	(12,236)	(24,564)	(23,891)
Other income (expense), net	(155)	1,979	1,234	5,408
Income before income taxes	3,824	51,575	33,602	90,890
Provision (benefit) for income taxes	(360)	6,787	5,192	13,201
Net income	$ 4,184	$ 44,788	$ 28,410	$ 77,689
Net income per share				
Basic	$ 0.05	$ 0.54	$ 0.35	$ 0.93
Diluted	$ 0.05	$ 0.54	$ 0.35	$ 0.93
Weighted average common shares outstanding (See Note 13):				
Basic	80,966	83,168	81,418	83,400
Diluted	81,151	83,622	81,739	83,979
Comprehensive income (See Note 14)	1,947	52,598	22,975	$ 109,630

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

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

	June 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 309,192	$ 456,661
Trade accounts receivable, net of allowances of $4,692 and $4,304	258,663	263,465
Inventories, net	354,293	324,583
Prepaid expenses and other current assets	129,112	116,789
Total current assets	1,051,260	1,161,498
Property, plant and equipment, net	317,571	311,302
Right of use asset - operating leases	148,651	148,284
Intangible assets, net	1,093,596	1,126,609
Goodwill	1,043,273	1,038,881
Deferred tax assets, net	56,050	45,994
Other assets	67,200	57,190
Total assets	$ 3,777,601	$ 3,889,758
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of borrowings under senior credit facility	$ 4,844	$ 38,125
Current portion of borrowings under securitization facility	90,800	—
Current portion of lease liability - operating leases	14,618	14,624
Accounts payable, trade	99,766	102,100
Contract liabilities	8,275	7,253
Accrued compensation	64,645	78,771
Accrued expenses and other current liabilities	94,548	80,033
Total current liabilities	377,496	320,906
Long-term borrowings under senior credit facility	764,616	733,149
Long-term borrowings under securitization facility	—	104,700
Long-term convertible securities	568,798	567,341
Lease liability - operating leases	159,538	157,420
Deferred tax liabilities	70,653	63,338
Other liabilities	153,340	138,501
Total liabilities	2,094,441	2,085,355
Stockholders' equity:		
Preferred stock; no par value; 15,000 authorized shares; none outstanding	—	—
Common stock; $0.01 par value; 240,000 authorized shares; 90,881 and 90,477 issued at June 30, 2023 and December 31, 2022, respectively	909	905
Additional paid-in capital	1,283,675	1,276,977
Treasury stock, at cost; 9,527 shares and 6,823 shares at June 30, 2023 and December 31, 2022, respectively	(513,782)	(362,862)
Accumulated other comprehensive income	4,830	10,265
Retained earnings	907,528	879,118
Total stockholders' equity	1,683,160	1,804,403
Total liabilities and stockholders' equity	$ 3,777,601	$ 3,889,758

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)
(Dollars in thousands)

	Six Months Ended June 30,	
	2023	**2022**
OPERATING ACTIVITIES:		
Net income	$ 28,410	$ 77,689
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	61,969	59,336
Deferred income tax provision	1,726	7,542
Share-based compensation	8,891	13,027
Amortization of debt issuance costs and expenses associated with debt refinancing	3,314	3,392
Non-cash lease expense	1,751	1,393
Loss (gain) on disposal of property and equipment	(104)	732
Change in fair value of contingent consideration and others	6,081	(5,799)
Changes in assets and liabilities:		
Accounts receivable	4,826	(9,632)
Inventories	(27,555)	(17,576)
Prepaid expenses and other current assets	(10,512)	(4,120)
Other non-current assets	(8,184)	6,738
Accounts payable, accrued expenses and other current liabilities	(15,899)	(14,556)
Contract liabilities	724	774
Other non-current liabilities	(1,003)	(8,118)
Net cash provided by operating activities	54,435	110,822
INVESTING ACTIVITIES:		
Purchases of property and equipment	(29,252)	(18,732)
Acquired in-process research and development milestone	—	(4,742)
Net proceeds from swaps designated as net investment hedges	—	4,909
Net cash used in investing activities	(29,252)	(18,565)
FINANCING ACTIVITIES:		
Proceeds from borrowings of long-term indebtedness	15,200	23,000
Payments on debt	(29,100)	(23,000)
Payment of debt issuance costs	(7,578)	—
Purchases of treasury stock	(150,000)	(125,000)
Proceeds from exercised stock options	3,437	1,592
Cash taxes paid in net equity settlement	(5,335)	(23,204)
Net cash used in financing activities	(173,376)	(146,612)
Effect of exchange rate changes on cash and cash equivalents	724	(11,941)
Net decrease in cash and cash equivalents	(147,469)	(66,296)
Cash and cash equivalents at beginning of period	456,661	513,448
Cash and cash equivalents at end of period	$ 309,192	$ 447,152

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

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)
(Dollars in thousands)

	Six Months Ended June 30, 2023							
	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Equity
	Shares	Amount	Shares	Amount				
Balance, January 1, 2023	90,476	$ 905	(6,823)	$ (362,862)	$ 1,276,977	$ 10,265	$ 879,118	$ 1,804,403
Net income	—	—	—	—	—	—	24,226	24,226
Other comprehensive income (loss), net of tax	—	—	—	—	—	(3,198)	—	(3,198)
Issuance of common stock through employee stock purchase plan	21	—	—	—	1,107	—	—	1,107
Issuance of common stock for vesting of share based awards, net of shares withheld for taxes	316	1	16	846	(4,858)	—	—	(4,011)
Share-based compensation	—	2	—	—	3,609	—	—	3,611
Accelerated shares repurchased	—	$ —	(2,111)	(119,662)	(31,538)	$ —	—	(151,200)
Balance, March 31, 2023	90,813	$ 908	(8,918)	$ (481,678)	$ 1,245,297	$ 7,067	$ 903,344	$ 1,674,938
Net income	—	—	—	—	—	—	4,184	4,184
Other comprehensive loss, net of tax	—	—	—	—	—	(2,237)	—	(2,237)
Issuance of common stock for vesting of share based awards, net of shares withheld for taxes	68	1	—	21	985	—	—	1,007
Share-based compensation	—	—	—	—	5,268	—	—	5,268
Accelerated shares repurchased	—	$ —	(609)	(32,125)	32,125	$ —	$ —	—
Balance, June 30, 2023	90,881	$ 909	(9,527)	$ (513,782)	$ 1,283,675	$ 4,830	$ 907,528	$ 1,683,160

	Six Months Ended June 30, 2022							
	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Equity
	Shares	Amount	Shares	Amount				
Balance, January 1, 2022	89,600	$ 896	(4,899)	$ (234,448)	$ 1,264,943	$ (45,155)	$ 698,568	$ 1,684,804
Net income	—	—	—	—	—	—	32,901	32,901
Other comprehensive income (loss), net of tax	—	—	—	—	—	24,130	—	24,130
Issuance of common stock through employee stock purchase plan	17	—	—	—	1,078	—	—	1,078
Issuance of common stock for vesting of share based awards, net of shares withheld for taxes	339	4	14	714	(9,758)	—	—	(9,040)
Share-based compensation	—	—	—	—	6,324	—	—	6,324
Accelerated shares repurchased	—	—	(1,938)	(129,152)	4,152	—	—	(125,000)
Balance, March 31, 2022	89,956	$ 900	(6,823)	$ (362,886)	$ 1,266,739	$ (21,025)	$ 731,469	$ 1,615,197
Net income	—	—	—	—	—	—	44,788	44,788
Other comprehensive loss, net of tax	—	—	—	—	—	7,810	—	7,810
Issuance of common stock for vesting of share based awards, net of shares withheld for taxes	378	3	—	6	(13,655)	—	—	(13,646)
Share-based compensation	—	—	—	—	6,768	—	—	6,768
Balance, June 30, 2022	90,334	$ 903	(6,823)	$ (362,880)	$ 1,259,852	$ (13,215)	$ 776,257	$ 1,660,917

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 June 30, 2023 unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the financial position, statement of changes in shareholders' equity, 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 in the United States ("GAAP") 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, 2022 included in the Company’s Annual Report on Form 10-K. The December 31, 2022 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. Operating results for the three and six-month periods ended June 30, 2023 are not necessarily indicative of the results to be expected for the entire year.

The preparation of consolidated financial statements is in conformity with GAAP, which 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 condensed 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 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.

Recent Accounting Pronouncements

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform* (Topic 848), and subsequent amendment to the initial guidance: ASU 2021-01, *Reference Rate Reform* (Topic 848): Scope (collectively, “Topic 848”). Topic 848 provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts, hedging relationships, and other transactions that reference London Inter-Bank Offered Rate ("LIBOR") or another reference rate expected to be discontinued because of reference rate reform. The guidance generally can be applied through December 31, 2024. The Alternative Reference Rates Committee, a group of private-market participants convened by the U.S. Federal Reserve Board and the New York Federal Reserve, has recommended the use of the Secured Overnight Financing Rate ("SOFR") as a more robust reference rate alternative to LIBOR. On March 24, 2023, the Company entered into the seventh amendment and restatement (the "March 2023 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. In connection with the March 2023, Amendment the Company replaced all LIBOR-based contracts with SOFR, which is calculated based on overnight transactions under repurchase agreements backed by Treasury securities. In addition, on April 17, 2023 the company entered into an amendment (the "April 2023 Amendment") of the Securitization Facility and amended the interest rate from LIBOR to SOFR indexed rate. (See Note 6). In March 2023, the Company entered into a basis swap where the Company receives Term SOFR and pays LIBOR to convert the portfolio of interest rate swaps from LIBOR to SOFR. Integra has elected to adopt the optional expedient under ASC 848, which will allow the interest rate swap hedging relationship to continue, without de-designation, due to the change in the indexed rate from LIBOR to SOFR.

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. ACQUISITIONS AND DIVESTITURES

Surgical Innovation Associates, Inc. Acquisition

On December 6, 2022, the Company completed its acquisition of Surgical Innovation Associates, Inc. ("SIA") for an acquisition purchase price of $51.5 million (the "SIA Acquisition"). In addition to the purchase price, the acquisition includes two separate contingent considerations payments, which are dependent on 1) achieving certain revenue-based performance milestones in 2023, 2024, and 2025 (up to $50.0 million in additional payments), as well as 2) the approval by the FDA of the Premarket Approval (“PMA”) Application for DuraSorb for certain uses by certain timing targets (up to $40.0 million in additional payments). SIA's core technology, DuraSorb, is a fully resorbable scaffold of a globally accepted polymer, which is cleared for use in hernia repair, abdominal wall, and other soft tissue reinforcement. DuraSorb sales will be reported within Integra’s Tissue Technologies ("TT") segment as part of its Wound Reconstruction and Care franchise.

Assets Acquired and Liabilities Assumed at Fair Value

The SIA Acquisition has been accounted for using the acquisition method of accounting. This method requires that assets acquired, and liabilities assumed in a business combination to be recognized at their fair values as of the acquisition date.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the acquisition date:

Dollars in thousands		Preliminary Valuation	Weighted Average Life
Current assets:			
Cash		4,438	
Trade accounts receivable, net		1,551	
Inventories, net		2,900	
Prepaid expenses and other current assets		1,654	
Total current assets	$	10,543	
Intangible assets		75,000	14 years
Goodwill		41,380	
Total assets acquired	**$**	**126,923**	
Current liabilities:			
Accounts payable and accrued expenses	$	2,044	
Total current liabilities	$	2,044	
Deferred Tax Liability		11,325	
Contingent consideration		57,607	
Total liabilities assumed		**70,976**	
Net assets acquired	**$**	**55,947**	

Developed Technology

The estimated fair value of the developed technology was determined using the multi-period excess earnings method of the income approach, which estimates value based on the present value of future economic benefits. Some of the more significant assumptions inherent in the development of those asset valuations include the estimated net cash flows for each year for each product including net revenues, cost of sales, R&D costs, selling and marketing costs, working capital, and contributory asset charges, the appropriate discount rate to select in order to measure the risk inherent in each future cash flow stream, the assessment of the asset’s life cycle, and competitive trends impacting the asset and the cash flow stream.

The Company used a discount rate of 18% to arrive at the present value for the acquired intangible assets to reflect the rate of return a market participant would expect to earn and incremental commercial uncertainty in the cash flow projections. No assurances can be given that the underlying assumptions used to prepare the discounted cash flow analysis will not change. For these and other reasons, actual results may vary significantly from estimated results.

Goodwill

The Company allocated goodwill related to the SIA Acquisition to the TT segment. Goodwill is the excess of the consideration transferred over the net assets recognized and represents the expected revenue and cost synergies of the combined company and assembled workforce. A key factor that contributes to the recognition of goodwill, and a driver for the Company’s acquisition of SIA, is the attractive growth opportunities presented by the surgical matrix business in the breast reconstruction market. Goodwill recognized as a result of this acquisition is non-deductible for income tax purposes.

Contingent Consideration

The Company determines the acquisition date fair value of contingent consideration obligations based on a probability-weighted income approach derived from revenue estimates and a probability assessment with respect to the likelihood of achieving contingent obligations. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined using the fair value concepts in ASC 820. The resulting most likely payouts are discounted using an appropriate effective annual interest rate. At each reporting date, the contingent consideration obligation will be revalued to estimated fair value and changes in fair value will be reflected as income or expense in the consolidated statement of operations. Changes in the fair value of the contingent considerations may result from changes in discount periods and rates and changes in the timing and amount of revenue estimates. Changes in assumptions utilized in the contingent consideration fair value estimates could result in an increase in the contingent consideration obligation and a corresponding charge to operating results.

As part of the SIA Acquisition, the Company is required to pay to the shareholder of SIA up to $90.0 million for two separate payments, which are dependent on 1) achieving certain revenue-based performance milestones in 2023, 2024, and 2025 (up to $50.0 million in additional payments), as well as 2) the approval by the FDA of the PMA for DuraSorb for certain uses by certain timing targets (up to $40.0 million in additional payments). The Company used iterations of the Monte Carlo simulation to calculate the fair value of the contingent consideration for the revenue-based milestone that considered the possible outcomes of scenarios related to each specific milestone for the revenue based performance milestone. The Company used probabilities of achieving the conditions to calculate the fair value of the contingent consideration for the PMA approval milestone. The Company estimated the fair value of the contingent consideration for the revenue based milestone to be $32.6 million at the acquisition date and $25.0 million for the PMA approval milestone as of December 31, 2022. The company recorded a total of $50.1 million in other liabilities as of June 30, 2023 and $12.7 million in accrued expenses and other current liabilities at June 30, 2023 in the consolidated balance sheet of the company.

Deferred Tax Liabilities

Deferred tax liabilities result from identifiable intangible assets’ fair value adjustments. These adjustments create excess book basis over tax basis which is tax-effected by the statutory tax rates of applicable jurisdictions.

Sale of non-core traditional wound care business

On August 31, 2022, the Company completed its sale of its non-core traditional wound care ("TWC") business to Gentell, LLC ("Gentell") for $28.8 million, which consists of $27.8 million in cash plus $1.0 million in contingent consideration which may be received upon achieving certain revenue-based performance milestones two years after the closing date. The transaction included the sale of the Company's TWC products, such as sponges, gauze and conforming bandages, and certain advanced wound care dressings, such as supportive, calcium alginate, hydrogel, and foam dressings.

The divestiture did not represent a strategic shift that had a major effect on the Company's operations and financial statements. Goodwill was allocated to the assets and liabilities divested using the relative fair value method of the TWC business to the Company's TT reportable business segment. In connection with the sale, the Company recognized $0.6 million as a gain from the sale of the business in the condensed consolidated statement of operations for the year ended December 31, 2022. The transaction is subject to final working capital adjustments.

In addition to the purchase and sale agreement, the Company also entered into a contract manufacturing agreement with Gentell. Under the terms of the agreement, Gentell received inventory, equipment, and tooling to manufacture certain MediHoney® and TCC-EZ® products on behalf of the Company. On the close date of this transaction, the Company transferred all inventory associated with these products to Gentell and recognized an asset of $11.1 million, as a form of a deposit for the inventory transferred, which based on the expected timing of inventory purchases, was primarily included within prepaid expenses and other current assets in the consolidated balance sheet. This deposit will be utilized by the Company on future orders placed to Gentell for such products. As of June 30, 2023, the Company had a deposit remaining of $6.2 million which is included in prepaid assets and recognized a payable due to Gentell of $0.6 million, which is included in the condensed consolidated balance sheet within accrued expenses and other current liabilities.

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.

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 Estimates

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 review and authorization in advance prior to the return of product. Upon the authorization, a credit will be issued for the goods returned within a set amount of days from the shipment, which is generally 90 days.

In the second quarter of 2023, due to the voluntary recall of Primatrix®, Surgimend®, Revize™, and TissueMend™, the Company recorded a $12.9 million provision for product returns, as a reduction of net revenue. Of this amount, $0.7 million was paid out in Q2.

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 goods 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 sheets.

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 summarized the changes in the contract asset and liability balances for the six months ended June 30, 2023:

Dollars in thousands		Total
Contract Asset		
Contract asset, January 1, 2023	$	10,122
Transferred to trade receivable from contract asset included in beginning of the year contract asset		(7,743)
Written off from beginning of the year contract asset due to Boston recall		(2,379)
Contract asset, net of transferred to trade receivables on contracts during the period		9,639
Contract asset, June 30, 2023	$	9,639
Contract Liability		
Contract liability, January 1, 2023	$	16,127
Recognition of revenue included in beginning of year contract liability	$	(5,487)
Contract liability, net of revenue recognized on contracts during the period		6,172
Foreign currency translation		(15)
Contract liability, June 30, 2023	$	16,797

At June 30, 2023, the short-term portion of the contract liability of $8.3 million and the long-term portion of $8.5 million is included in current liabilities and other liabilities, respectively, in the consolidated balance sheets.

As of June 30, 2023, the Company is expected to recognize revenue of approximately 49% of unsatisfied (or partially unsatisfied) performance obligations as revenue within 12 months, with the remaining balance to be recognized 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 and six months ended June 30, 2023 and 2022 (dollar amounts in thousands):

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Neurosurgery	$ 205,803	$ 200,295	$ 398,673	$ 394,970
Instruments	65,227	57,568	120,493	110,201
Total Codman Specialty Surgical	271,030	257,863	519,166	505,171
Wound Reconstruction and Care	91,118	104,894	192,058	199,524
Private Label	19,119	35,058	50,889	69,758
Total Tissue Technologies	110,237	139,952	242,947	269,282
Total revenue	$ 381,267	$ 397,815	$ 762,113	$ 774,453

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

4. INVENTORIES

Inventories, net consisted of the following:

Dollars in thousands	June 30, 2023	December 31, 2022
Finished goods	$ 174,603	$ 172,088
Work in process	79,263	70,598
Raw materials	100,427	81,897
Total inventories, net	$ 354,293	$ 324,583

Boston Recall

In the second quarter of 2023, due to the voluntary recall of Primatrix®, Surgimend®, Revize™, and TissueMend™, the Company recorded a $24.1 million write off of inventory that was no longer able to be sold.

Subsequent Event

On July 24, 2023, a severe tornado struck the Lelocle, Switzerland area (the “Lelocle Tornado”) causing significant damage to certain inventory held at one of the Company’s storage facilities. There wasn’t any damage to Integra’s manufacturing facility in Switzerland. The extent of damage to the facility is being assessed, however, the Company believes the inventory write-off will not exceed $8 million. The Company maintains insurance coverage for damage to its facilities and inventory, as well as business interruption insurance. The Company is in the process of reviewing these coverages with its insurance carriers. The Company believes there will be a recovery under its insurance policies, however no assurance can be given regarding the amounts, if any, that will be ultimately recovered or when any such recoveries will be made.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Changes in the carrying amount of goodwill for the six-month period ended June 30, 2023 were as follows:

Dollars in thousands	Codman Specialty Surgical	Tissue Technologies	Total
Goodwill at December 31, 2022	$ 656,219	$ 382,662	$ 1,038,881
SIA Acquisition Working Capital Adjustment	—	(382)	(382)
Foreign currency translation	3,015	1,759	4,774
Goodwill at June 30, 2023	$ 659,234	$ 384,039	$ 1,043,273

The Company tests goodwill for impairment by either performing a qualitative evaluation or a quantitative analysis. In the second quarter of 2023, due to the voluntary recall of Primatrix®, Surgimend®, Revize™, and TissueMend™ as well as the associated drop in the Company's stock price in Q2, the Company elected to perform a quantitative analysis for its Tissue Technologies reporting unit.

The quantitative test estimates the fair value of the reporting unit using a discounted cash flow model, which incorporates significant estimates and assumptions made by management which, by their nature, are characterized by uncertainty. The quantitative test utilized a long-term growth rate of 2% and a discount rate of 10%. The Company determined, after performing the quantitative analysis, that the fair value of the goodwill of the reporting unit was not less than the carrying amount, with more than 20% headroom.

Other Intangible Assets

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

	June 30, 2023						
Dollars in thousands	Weighted Average Life		Cost		Accumulated Amortization		Net
Completed technology	18 years	$	1,211,660	$	(408,428)	$	803,232
Customer relationships	12 years	$	193,550	$	(148,103)	$	45,447
Trademarks/brand names	28 years	$	97,950	$	(36,700)	$	61,250
Codman tradename	Indefinite	$	169,279	$	—	$	169,279
Supplier relationships	30 years	$	30,211	$	(17,659)	$	12,552
All other	11 years	$	6,064	$	(4,228)	$	1,836
		$	1,708,714	$	(615,118)	$	1,093,596

	December 31, 2022						
Dollars in thousands	Weighted Average Life		Cost		Accumulated Amortization		Net
Completed technology	18 years	$	1,204,325	$	(370,968)	$	833,357
Customer relationships	12 years		193,081		(144,040)		49,041
Trademarks/brand names	28 years		97,265		(34,674)		62,591
Codman tradename	Indefinite		166,693		—		166,693
Supplier relationships	30 years		30,211		(17,170)		13,041
All other	11 years		5,957		(4,071)		1,886
		$	1,697,532	$	(570,923)	$	1,126,609

Based on quarter-end exchange rates, amortization expense (including amounts reported in cost of goods sold) is expected to be approximately $41.4 million for the remainder of 2023, $82.2 million in 2024, $82.2 million in 2025, $82.0 million in 2026, $80.0 million in 2027, $78.5 million in 2028 and $477.1 million thereafter.

The Company periodically performs testing for impairment on certain long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the second quarter of 2023, due to the voluntary recall of Primatrix®, Surgimend®, Revize™, and TissueMend™, the Company elected to perform impairment testing on certain definite lived intangibles.

The impairment testing estimates the fair value of the intangibles using an undiscounted cash flow model. The Company determined, after performing the impairment testing, that the fair value of the intangibles was not less that the carrying amount.

6. DEBT

Amendment to the Seventh Amended and Restated Senior Credit Agreement

On March 24, 2023, the Company entered into the seventh amendment and restatement (the "March 2023 Amendment") of the Senior Credit Facility (the "Senior Credit Facility") with a syndicate of lending banks with Bank of America, N.A., as Administrative Agent. The March 2023 Amendment extended the maturity date to March 24, 2028, amended the contractual repayments of Term loan A, and amended the interest rate from LIBOR to SOFR-indexed interest. The Company continues to have the aggregate principal amount of up to approximately $2.1 billion available to it through the following facilities: (i) a $775.0 million term loan facility, and (ii) a $1.3 billion revolving credit facility, which includes a $60 million sublimit for the issuance of standby letters of credit and a $60 million sublimit for swingline loans.

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
March 31, 2023 through December 31, 2024	4.50 to 1.00
March 31, 2025 through June 30, 2026	4.25 to 1.00
September 30, 2026 and the last day of each fiscal quarter thereafter	4.00 to 1.00

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

i. term SOFR in effect from time to time plus 0.10% 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%
   2. the prime lending rate of Bank of America, N.A. or
   3. the one-month Term SOFR plus 1.00%

The applicable rates are based on the Company’s consolidated total leverage ratio (defined as the ratio of (a) consolidated funded indebtedness as of such date less cash that is not subject to any restriction on the use or investment thereof to (b) consolidated EBITDA (as defined by the amended Seventh Amended and Restated Credit Agreement (the "Credit Agreement")), for the period of four consecutive fiscal quarters ending on such date).

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 June 30, 2023, the Company was in compliance with all such covenants. The Company capitalized $7.6 million in deferred financing costs in connection with the modification of the Senior Credit Facility and wrote off $0.2 million of previously capitalized financing costs during the first quarter of 2023.

At June 30, 2023 and December 31, 2022 there was no balance outstanding under the revolving portion of the Senior Credit Facility. At June 30, 2023 and December 31, 2022, there was $775.0 million outstanding under the term loan component of the Senior Credit Facility at a weighted average interest rate of 6.6% and 5.6%, respectively. The liability related to the Senior Credit Facility shown on the balance sheet at June 30, 2023 and December 31, 2022 is reflected net of $5.5 million and $3.7 million, respectively, in deferred financing costs. As of June 30, 2023 and December 31, 2022 there was $4.8 million and $38.1 million of the Term Loan component of the Senior Credit Facility classified as current on the condensed consolidated balance sheet, respectively.

The fair value of outstanding borrowings of the Senior Credit Facility's Term Loan component at June 30, 2023 was $759.3 million. This fair value was 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 June 30, 2023 and December 31, 2022 totaled $1.7 million and $1.6 million, respectively. There were no amounts drawn as of June 30, 2023.

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

Quarter Ended June 30, 2023	Principal Repayment	
Dollars in thousands		
Remainder of 2023	$	—
2024	$	14,531
2025	$	33,906
2026	$	38,750
Thereafter		687,813
	$	775,000

Future interest payments on the term loan component of the Senior Credit Facility based on current interest rates are expected to approximate $25.5 million for remainder of 2023, $50.5 million in 2024, $48.7 million in 2025, $46.2 million in 2026, and $52.8 million thereafter . Interest is calculated on the term loan portion of the Senior Credit Facility based on SOFR plus the certain amounts set forth in the Credit Agreement. As the revolving credit facility and Securitization Facility can be repaid at any time, no interest has been included in the calculation.

Any outstanding borrowings on the revolving credit component of the Senior Credit Facility is due on March 24, 2028.

Convertible Senior Notes

On February 4, 2020, the Company issued $575.0 million aggregate principal amount of its 0.5% Convertible Senior Notes due 2025 (the "2025 Notes"). The 2025 Notes will mature on August 15, 2025 and bear interest at a rate of 0.5% per annum payable semi-annually in arrears, unless earlier converted, repurchased or redeemed in accordance with the terms of the 2025 Notes. In connection with this offering, the Company capitalized $13.2 million of financing fees.

The 2025 Notes are senior, unsecured obligations of the Company, and are convertible into cash and shares of its common stock based on initial conversion rate, subject to adjustment of 13.5739 shares per $1,000 principal amounts of the 2025 Notes (which represents an initial conversion price of $73.67 per share). The 2025 Notes convert only in the following circumstances: (1) if the closing price of the Company's common stock has been at least 130% of the conversion price during the period; (2) if the average trading price per $1,000 principal amount of the 2025 Notes is less than or equal to 98% of the average conversion value of the 2025 Notes during a period as defined in the indenture; (3) if the Company calls the notes for optional redemption as defined in the indenture; or (4) if specified corporate transactions occur. As of June 30, 2023, none of these conditions existed with respect to the 2025 Notes and as a result the 2025 Notes are classified as long term.

On December 9, 2020, the Company entered into the First Supplemental Indenture to the original agreement dated as of February 4, 2020 between the Company and Citibank, N.A., as trustee, governing the Company’s outstanding 2025 Notes. The Company irrevocably elected (1) to eliminate the Company’s option to choose physical settlement on any conversion of the 2025 Notes that occurs on or after the date of the First Supplemental Indenture and (2) with respect to any Combination Settlement for a conversion of the 2025 Notes, the Specified Dollar Amount that will be settled in cash per $1,000 principal amount of the 2025 Notes shall be no lower than $1,000.

Holders of the Notes will have the right to require the Company to repurchase for cash all or a portion of their Notes at 100% of their principal amount, plus any accrued and unpaid interest, upon the occurrence of a fundamental change (as defined in the indenture relating to the Notes). The Company will also be required to increase the conversion rate for holders who convert their Notes in connection with certain fundamental changes occurring prior to the maturity date or following delivery by the Company of a notice of redemption.

In connection with the issuance of the 2025 Notes, the Company entered into call transactions and warrant transactions, primarily with affiliates of the initial purchasers of the 2025 Notes (the “hedge participants”). The cost of the call transactions was $104.2 million for the 2025 Notes. The Company received $44.5 million of proceeds from the warrant transactions for the 2025 Notes. The call transactions involved purchasing call options from the hedge participants, and the warrant transactions involved selling call options to the hedge participants with a higher strike price than the purchased call options. The initial strike price of the call transactions was $73.67, subject to anti-dilution adjustments substantially similar to those in the 2025 Notes. The initial strike price of the warrant transactions was $113.34 for the 2025 Notes, subject to customary anti-dilution adjustments.

At June 30, 2023, the carrying amount of the liability was $575.0 million. The fair value of the 2025 Notes at June 30, 2023 was $524.6 million. Factors that the Company considered when estimating the fair value of the 2025 Notes included recent quoted market prices or dealer quotes. The level of the 2025 Notes is considered as Level 1.

Securitization Facility

In 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 ("Securitization 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 Agreement may give rise to the right of its counterparty to terminate this facility. As of June 30, 2023, the Company was in compliance with the covenants and none of the termination events had occurred.

On May 28, 2021, the Company entered into an amendment (the "May 2021 Amendment") of the Securitization Facility which extended the maturity date from December 21, 2021 to May 28, 2024. In addition, on April 17, 2023 the company entered into an amendment (the "April 2023 Amendment") of the Securitization Facility and amended the interest rate from LIBOR to SOFR indexed rate. The April 2023 Amendment and the May 2021 Amendment does not increase the Company’s total indebtedness.

The Securitization Facility is currently indexed to SOFR. At June 30, 2023 and December 31, 2022, the Company had $90.8 million and $104.7 million, respectively, of outstanding borrowings under its Securitization Facility at a weighted average interest rate of 6.3% and 5.0%, respectively. At June 30, 2023, the total amount outstanding under the Securitization Facility is classified as current on the consolidated balance sheet as the total amount is due on May 28, 2024.

The fair value of the outstanding borrowing of the Securitization Facility at June 30, 2023 was $90.6 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.

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 the Company's expected SOFR-indexed borrowings. In connection with the March 2023 Amendment to the Senior Credit Facility, the Company amended its interest rate from LIBOR to SOFR-indexed interest. In March 2023, the Company entered into a basis swap where the Company receives Term SOFR and pays LIBOR to convert the portfolio of swaps from LIBOR to SOFR.

The Company held the following interest rate swaps as of June 30, 2023 and December 31, 2022 (dollar amounts in thousands):

Hedged Item	June 30, 2023 Notional Amount	Designation Date	Effective Date	Termination Date	Fixed Interest Rate	June 30, 2023 Estimated Fair Value Asset (Liability)
1-month Term SOFR Loan	150,000	December 13, 2017	July 1, 2019	June 30, 2024	2.423 %	4,259
1-month Term SOFR Loan	200,000	December 13, 2017	January 1, 2018	December 31, 2024	2.313 %	8,200
1-month Term SOFR Loan	75,000	October 10, 2018	July 1, 2020	June 30, 2025	3.220 %	2,320
1-month Term SOFR Loan	75,000	October 10, 2018	July 1, 2020	June 30, 2025	3.199 %	2,364
1-month Term SOFR Loan	75,000	October 10, 2018	July 1, 2020	June 30, 2025	3.209 %	2,334
1-month Term SOFR Loan	100,000	December 18, 2018	December 30, 2022	December 31, 2027	2.885 %	4,844
1-month Term SOFR Loan	100,000	December 18, 2018	December 30, 2022	December 31, 2027	2.867 %	4,841
1-month Term SOFR Loan	575,000	December 15, 2020	July 31, 2025	December 31, 2027	1.415 %	24,174
1-month Term SOFR Loan	125,000	December 15, 2020	July 1, 2025	December 31, 2027	1.404 %	5,502
Basis Swap [(1)]	—	March 31, 2023	March 24, 2023	December 31, 2027	N/A	(1,937)
	$ 1,475,000					$ 56,901

[(1)] The notional of the basis swap amortizes to match the total notional of the interest rate swap portfolio over time

Hedged Item	December 31, 2022 Notional Amount	Designation Date	Effective Date	Termination Date	Fixed Interest Rate	December 31, 2022 Estimated Fair Value Asset (Liability)
1-month USD LIBOR Loan	150,000	December 13, 2017	July 1, 2019	June 30, 2024	2.423 %	5,012
1-month USD LIBOR Loan	200,000	December 13, 2017	January 1, 2018	December 31, 2024	2.313 %	8,380
1-month USD LIBOR Loan	75,000	October 10, 2018	July 1, 2020	June 30, 2025	3.220 %	1,831
1-month USD LIBOR Loan	75,000	October 10, 2018	July 1, 2020	June 30, 2025	3.199 %	1,905
1-month USD LIBOR Loan	75,000	October 10, 2018	July 1, 2020	June 30, 2025	3.209 %	1,970
1-month USD LIBOR Loan	100,000	December 18, 2018	December 30, 2022	December 31, 2027	2.885 %	4,252
1-month USD LIBOR Loan	100,000	December 18, 2018	December 30, 2022	December 31, 2027	2.867 %	4,153
1-month USD LIBOR Loan	575,000	December 15, 2020	July 31, 2025	December 31, 2027	1.415 %	23,742
1-month USD LIBOR Loan	125,000	December 15, 2020	July 1, 2025	December 31, 2027	1.404 %	5,467
	$ 1,475,000					$ 56,712

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. Those amounts are subsequently reclassified to earnings from AOCI as impacted by the hedged item when the hedged item affects 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, 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 anticipated 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 September 26, 2022, the Company amended the CHF-denominated intercompany loan to extend the termination date to September 2023 and as a result, the Company early terminated the cross-currency swap designated as cash flow hedge of an intercompany loan with aggregate notional amount of 50.0 million. Simultaneously, the Company entered into a cross-currency swap agreement to convert a notional amount of CHF 48.5 million equivalent to 49.1 million of this amended intercompany loan into U.S. dollars. The loss recorded by the Company upon the settlement of the swap was not material for the period.

On December 21, 2020, the Company entered into cross-currency swap agreements to convert a notional amount of $471.6 million equivalent to 420.1 million of a CHF-denominated intercompany loan into U.S. dollars. The CHF-denominated intercompany loan was the result of an intra-entity transfer of certain intellectual property rights to a subsidiary in Switzerland completed during the fourth quarter of 2020. The intercompany loan requires quarterly payments of CHF 5.8 million plus accrued interest. As a result, the aggregate notional amount of the related cross-currency swaps will decrease by a corresponding amount.

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 June 30, 2023 and December 31, 2022 (dollar amounts in thousands):

					June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022
	Effective Date	**Termination Date**	**Fixed Rate**	**Aggregate Notional Amount**			**Fair Value Asset (Liability)**	
Pay CHF	December 21, 2020	December 22, 2025	3.00%	CHF	377,591	374,137	(16,217)	(4,241)
Receive U.S.$			3.98%	$	418,066	420,001		
Pay CHF	September 28, 2022	September 29, 2023	1.95%	CHF	48,532	48,532	(5,131)	(3,528)
Receive U.S.$			5.32%	$	49,142	49,142		
Total							$ (21,348)	$ (7,769)

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 and six months ended June 30, 2023 the Company recorded losses of $8.5 million and $12.0 million, respectively, in other income, net related to change in fair value related to the foreign currency rate translation to offset the losses recognized on the intercompany loans. For the three and six months ended June 30, 2022, the Company recorded gains of $19.3 million and $25.8 million, respectively, in other income, net related to change in fair value related to the foreign currency rate translation to offset the gain or losses recognized on the intercompany loans.

For the three and six months ended June 30, 2023, the Company recorded losses of $12.9 million and $10.7 million in AOCI, respectively, related to change in fair value of the cross-currency swaps. For the three and six months ended June 30, 2022, the Company recorded a loss of $21.1 million and a gain of $21.5 million in AOCI, respectively, related to change in fair value of the cross-currency swaps.

For the three and six months ended June 30, 2023, the Company recorded gains of $1.4 million and $2.9 million, respectively, in other income, net included in the consolidated statements of operations related to the interest rate differential of the cross-currency swaps. For the three and six months ended June 30, 2022, the Company recorded gains of $2.0 million and $3.8 million, respectively, in other income, net included in the consolidated statements of operations related to the interest rate differential of the cross-currency swaps.

The estimated loss that is expected to be reclassified to other income (expense), net from AOCI as of June 30, 2023 within the next twelve months is $2.0 million. As of June 30, 2023, the Company does not expect any gains or losses will be reclassified into earnings because the original forecasted transactions 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 from its international operations through 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 and December 16, 2020, 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 June 30, 2023 and December 31, 2022, respectively (dollar amounts in thousands):

				Aggregate Notional Amount			Fair Value Asset (Liability)	
	Effective Date	Termination Date	Fixed Rate		June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022
Pay EUR	October 3, 2018	September 30, 2023	—%	EUR	51,760	51,760	3,612	4,713
Receive U.S.$			2.57%	$	60,000	60,000		
Pay EUR	October 3, 2018	September 30, 2025	—%	EUR	38,820	38,820	3,272	4,307
Receive U.S.$			2.19%	$	45,000	45,000		
Pay CHF	May 26, 2022	December 16, 2028	—%	CHF	288,210	288,210		
Receive U.S.$			1.94%	$	300,000	300,000	(26,854)	(14,663)
Total							$ (19,970)	$ (5,643)

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 and six months ended June 30, 2023, the Company recorded losses of $11.1 million and $10.1 million, respectively, in AOCI related to the change in fair value of the cross-currency swaps. For the three and six months ended June 30, 2022, the Company recorded gains of $10.8 million and $12.1 million in AOCI, respectively, related to change in fair value of the cross-currency swaps.

For the three and six months ended June 30, 2023, the Company recorded gains of $2.1 million and $4.2 million, respectively, in interest income included in the consolidated statements of operations related to the interest rate differential of the cross-currency swaps. For the three and six months ended June 30, 2022, the Company recorded gains of $1.0 million and $2.3 million, respectively, 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 June 30, 2023 within the next twelve months is $10.6 million.

Foreign Currency Forward Contract

The Company has entered into a hedge for forecasted intercompany purchases denominated in foreign currencies through the use of forward contracts designated as cash flow hedges. To the extent these forward contracts meet hedge accounting criteria, changes in their fair value are not included in accumulated comprehensive loss. These changes in fair value will be recognized into earnings as a component of cost of sales when the forecasted-transaction occurs.

During the first half of 2023, the Company entered into Foreign Currency Forward Contracts to mitigate the risk of foreign currency on intercompany purchases in CHF. These contracts typically settle at various dates within twelve months of execution. As of June 30, 2023 the notional amount of Foreign Currency Forward Contracts was $12.6 million. During the three and six months ended June 30, 2023 the Company recorded gains of $0.3 million and $0.2 million, respectively in AOCI related to the change in fair value of the Foreign Currency Forward Contracts.

For the three and six months ended June 30, 2023 the company recorded a gain of $0.4 million in cost of goods sold included in the consolidated statements of operations related to the Foreign Currency Forward Contracts.

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 term of the derivative instruments. The fair values of the interest rate swaps and cross-currency swaps were developed using a market approach based on publicly available market yield curves and the terms of the swap. The Company performs ongoing assessments of counterparty credit risk.

The following table summarizes the fair value for derivatives designated as hedging instruments in the condensed consolidated balance sheets as of June 30, 2023 and December 31, 2022:

	Fair Value as of	
Location on Balance Sheet [1]:	**June 30, 2023**	**December 31, 2022**
Dollars in thousands		
Derivatives designated as hedges — Assets:		
Prepaid expenses and other current assets		
Cash Flow Hedges		
Interest rate swap[2]	$ 20,200	$ 16,682
Cross-currency swap	3,148	4,497
Net Investment Hedges		
Cross-currency swap	10,552	11,653
Other assets		
Cash Flow Hedges		
Interest rate swap[2]	38,638	40,030
Cross-currency swap	—	—
Net Investment Hedges		
Cross-currency swap	2,278	3,311
Total derivatives designated as hedges — Assets	$ 74,816	$ 76,173
Derivatives designated as hedges — Liabilities:		
Accrued expenses and other current liabilities		
Cash Flow Hedges		
Interest rate swap[2]	$ 675	$ —
Cross-currency swap	5,131	3,528
Foreign currency forward contracts	123	
Net Investment Hedges		
Cross-currency swap	—	—
Other liabilities		
Cash Flow Hedges		
Interest rate swap[2]	1,262	—
Cross-currency swap	19,365	8,738
Net Investment Hedges		
Cross-currency swap	32,799	20,608
Total derivatives designated as hedges — Liabilities	$ 59,355	$ 32,874

[1] The Company classifies derivative assets and liabilities as current based on the cash flows expected to be incurred within the following 12 months.
[2] At June 30, 2023 and December 31, 2022, the total notional amounts related to the Company's interest rate swaps were both $1.5 billion, respectively.

The following presents the effect of derivative instruments designated as cash flow hedges and net investment hedges on the accompanying condensed consolidated statement of operations during the three and six months ended June 30, 2023 and 2022:

Dollars in thousands	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
Three Months Ended June 30, 2023					
Cash Flow Hedges					
Interest rate swap	$ 42,678	$ 18,694	$ 4,471	$ 56,901	Interest expense
Cross-currency swap	(14,576)	(12,873)	(8,524)	(18,925)	Other income, net
Foreign Currency Forward Contract	(69)	304	358	(123)	Cost of Sales
Net Investment Hedges					
Cross-currency swap	(8,060)	(11,067)	2,112	(21,239)	Interest income
	$ 19,973	$ (4,942)	$ (1,583)	$ 16,614	
Three Months Ended June 30, 2022					
Cash Flow Hedges					
Interest rate swap	$ 2,932	$ 20,116	$ (3,891)	$ 26,939	Interest expense
Cross-currency swap	(17,703)	21,136	21,268	(17,835)	Other income, net
Net Investment Hedges					
Cross-currency swap	(2,332)	10,816	978	7,506	Interest income
	$ (17,103)	$ 52,068	$ 18,355	$ 16,610	

Dollars in thousands	Balance in AOCI Beginning of Year	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
Six Months Ended June 30, 2023					
Cash Flow Hedges					
Interest rate swap	$ 56,712	$ 8,160	$ 7,971	$ 56,901	Interest expense
Cross-currency swap	(20,271)	(10,682)	(12,028)	(18,925)	Other income (expense),net
Foreign Currency Forward Contract	—	235	358	(123)	
Net Investment Hedges					
Cross-currency swap	(6,914)	(10,117)	4,208	(21,239)	Interest income
	$ 29,527	$ (12,404)	$ 509	$ 16,614	
Six Months Ended June 30, 2022					
Cash Flow Hedges					
Interest rate swap	$ (43,956)	$ 61,790	$ (9,105)	$ 26,939	Interest expense
Cross-currency swap	(9,688)	21,452	29,599	(17,835)	Other income (expense), net
Net Investment Hedges					
Cross-currency swap	(2,321)	12,125	2,298	7,506	Interest income
	$ (55,965)	$ 95,367	$ 22,792	$ 16,610	

Derivative Instruments not designated hedges:

During the second quarter of 2021, the Company entered into a foreign currency swap, with a notional amount of $7.3 million to mitigate the risk from fluctuations in foreign currency exchange rates associated with an intercompany loan denominated in JPY. In a foreign currency swap transaction, the Company agrees with another party to exchange, at specified intervals, the difference between one currency and another currency at a fixed exchange rate, generally set at inception, calculated by reference to an agreed upon notional amount. The notional amount of each currency is exchanged at the inception and termination of the currency swap by each party. The Company subsequently paid down a portion of this swap, bringing the notional amount down to $6.4 million.

The following table summarizes the gains (losses) of derivative instruments not designated as hedges on the condensed consolidated statements of income, which was included in other income:

Dollars in thousands	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Foreign currency swaps	588	460	643	820
Total	$ 588	$ 460	$ 643	$ 820

8. STOCK-BASED COMPENSATION

As of June 30, 2023, the Company had stock options, restricted stock awards, performance stock awards, contract stock awards and restricted stock unit awards outstanding under the Integra LifeSciences Holdings Corporation Fifth Amended and Restated 2003 Equity Incentive Plan (the “2003 Plan”).

Stock options issued under the 2003 Plan become exercisable over specified periods, generally within four years from the date of grant for officers and employees, within one year from date of grant for directors which generally expire eight years from the grant date for employees, and from six to ten years for directors and certain executive officers, except in certain instances that result in accelerated vesting due to death, disability, retirement age or change in-control provisions within their grant agreements. 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 June 30, 2023, there were approximately $5.0 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 three years. There were 151,293 stock options granted during the six months ended June 30, 2023. For the six months ended June 30, 2023, the weighted average grant date fair value for stock options granted was $21.58 per option.

Awards of Restricted Stock and Performance Stock

Performance stock and restricted stock awards generally have requisite service periods of three years, except in certain instances that result in accelerated vesting due to death, disability, retirement age provision or change in-control provisions in their grant agreements. Performance stock units are subject to graded vesting conditions based on revenue goals of the Company. The Company expenses the fair value of restricted stock awards on a straight-line basis over the requisite service period. As of June 30, 2023, there was approximately $43.3 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 two years. The Company granted 397,664 restricted stock awards and 161,218 performance stock awards during the six months ended June 30, 2023. For the six months ended June 30, 2023, the weighted average grant date fair value for restricted stock awards and performance stock units granted was $52.92 and $52.87 per award, respectively.

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. RETIREMENT PLANS

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

Net periodic benefit costs for the Company’s defined benefit pension plans for the three and six months ended June 30, 2023 were $0.3 million and $0.6 million. The components of the net periodic benefit costs other than the service cost component of $0.5 million and $1.1 million for the three and six months ended June 30, 2023 are included in other income, net in the consolidated statements of operations.

Net periodic benefit costs for the Company’s defined benefit pension plans for the three and six months ended June 30, 2022 were $0.3 million and $0.5 million. The components of the net periodic benefit costs other than the service cost component of $0.6 million and $1.3 million for the three and six months ended June 30, 2022 are included in other income, net in the consolidated statements of operations.

The estimated fair values of plan assets were $38.0 million and $38.1 million as of June 30, 2023 and December 31, 2022, respectively. The net plan assets of the pension plans are invested in common trusts as of June 30, 2023 and December 31, 2022. 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.

Deferred Compensation Plan

The Company maintains a Deferred Compensation Plan in which certain employees of the Company may defer the payment and taxation of up to 75% of their base salary and up to 100% of bonus amounts and other eligible cash compensation.

This deferred compensation is invested in funds offered under this plan and is valued based on Level 1 measurements in the fair value hierarchy. Assets of the Company's deferred compensation plan are included in other current assets and recorded at fair value based on their quoted market prices. The fair value of these assets were $5.4 million and $4.7 million as of June 30, 2023 and December 31, 2022, respectively. Offsetting liabilities relating to the deferred compensation plan are included in Other liabilities.

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 June 30, 2023. Many of the Company's leases include both lease (e.g., fixed payments including rent) and non-lease components (e.g., common-area or other maintenance costs). For vehicles, the Company has 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 the Company's sole discretion, therefore, the majority of renewals to extend the lease terms are not included in the Right of Use ("ROU") assets and lease liabilities as they are not reasonably certain of exercise. The Company regularly evaluates renewal options and when they are reasonably certain of exercise, the renewal period is included in the lease term.

As most of the Company's leases do not provide an implicit rate, the Company uses a 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 six months ended June 30, 2023 and June 30, 2022 was $11.8 million and $10.2 million respectively, which includes $0.1 million, in related party operating lease expense.

Supplemental balance sheet information related to operating leases were as follows:

Dollars in thousands, except lease term and discount rate	June 30, 2023	December 31, 2022
ROU assets	$ 148,651	$ 148,284
Current lease liabilities	14,618	14,624
Non-current lease liabilities	159,538	157,420
Total lease liabilities	$ 174,156	$ 172,044
Weighted average remaining lease term (in years):		
Leased facilities	16.9 years	16.9 years
Leased vehicles	2.0 years	2.0 years
Weighted average discount rate:		
Leased facilities	5.4 %	5.4 %
Leased vehicles	2.7 %	2.7 %

Supplemental cash flow information related to leases for the six months ended June 30, 2023 and 2022 were as follows:

Dollars in thousands	June 30, 2023	June 30, 2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 9,505	$ 8,798
ROU assets obtained in exchange for lease liabilities:		
Operating leases	$ 7,582	$ 64,489

Future minimum lease payments under operating leases at June 30, 2023 were as follows:

Dollars in thousands	Related Parties	Third Parties	Total
Remainder of 2023	$ 148	$ 10,697	$ 10,845
2024	296	21,099	21,395
2025	296	19,859	20,155
2026	296	17,128	17,424
2027	296	16,849	17,145
2028	296	14,636	14,932
Thereafter	246	160,238	160,484
Total minimum lease payments	$ 1,874	$ 260,506	$ 262,380
Less: Imputed interest			88,224
Total lease liabilities			174,156
Less: Current lease liabilities			14,618
Long-term lease liabilities			159,538

There were no future minimum lease payments under finance leases at June 30, 2023.

Related Party Leases

The Company leases its manufacturing facility in Plainsboro, New Jersey, from a general partnership that is 50% owned by a principal stockholder of the Company. The term of the current lease agreement is through October 31, 2029 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, 2029 through October 31, 2034 at the fair market rental rate of the premises, and (ii) another 5-year renewal option to extend the lease from November 1, 2034 through October 31, 2039 at the fair market rental rate of the premises.

11. TREASURY STOCK

As of June 30, 2023 and December 31, 2022, there were 9.5 million and 6.8 million shares of treasury stock outstanding with a cost of $513.8 million and $362.9 million, at a weighted average cost per share of $53.93 and $53.18, respectively.

On January 26, 2023, the Company entered into a $150 million accelerated share repurchase ("2023 ASR") and received 2.1 million shares of the Company common stock at inception of the 2023 ASR, which represented approximately 80% of the expected total shares under the 2023 ASR. The settlement of the ASR agreement was completed in two separate transactions on April 26, 2023 and May 4, 2023, where the Company received an additional 0.30 million and 0.31 million shares respectively, determined using the volume-weighted average price of the Company's common stock during the term of the 2023 ASR.

On August 16, 2022, the Inflation Reduction Act of 2022 (the “Act”) was signed into law. The Act implements a new excise tax of 1% on the net share repurchases made by the Company effective for share repurchases performed January 1, 2023, or after. The Company accrued $1.2 million regarding the excise tax the first half of 2023 related to the ASR mentioned above.

On April 26, 2022, the Board of Directors authorized the Company to repurchase up to $225 million of the Company’s common stock. On July 18, 2023, the Board of Directors authorized a new $225 million share repurchase program, replacing the existing $225 million program authorized in April 2022, and of which $75 million remained authorized at the time of its replacement. The program authorized in July 2023 allows the Company to repurchase its shares opportunistically from time to time. The Company may utilize various methods to effect any repurchases, including open market transactions, privately negotiated transactions, transactions structured through investment banking institutions, including accelerated share repurchases, or a combination of the foregoing, some of which may be effected through Rule 10b5-1 plans. The price and timing of any future purchases under the share repurchase program will depend on factors such as levels of cash generation from operations, the volume of stock option exercises by employees, cash requirements for acquisitions, dividends, economic and market conditions and stock price, and such repurchases may be discontinued at any time.

On January 12, 2022, the Company entered into a $125 million accelerated share repurchase ("2022 ASR") and received 1.48 million shares of Company common stock at inception of the 2022 ASR, which represented approximately 80% of the expected total shares under the 2022 ASR. On March 24, 2022, the early exercise provision under the 2022 ASR was exercised by 2022 ASR counterparty. Upon settlement on March 24, 2022, the Company received an additional 0.46 million shares determined using the volume-weighted average price of the Company's common stock during the term of the 2022 ASR.

12. INCOME TAXES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Reported tax rate	(9.4)%	13.2 %	15.5 %	14.5 %

The Company’s effective income tax rates for the three months ended June 30, 2023 and 2022 were (9.4)% and 13.2%, respectively. For the three months ended June 30, 2023, the primary drivers of the lower tax rate relate to a reduction to book income and a $1.1 million benefit associated with the Federal R&D credit.

The Company’s effective income tax rates for the six months ended June 30, 2023 and 2022 were 15.5% and 14.5%, respectively. For the six months ended June 30, 2023, the primary drivers of the tax rate relate to a reduction to book income and a $1.1 million benefit associated with the Federal R&D credit. The lower rate from the six months ended June 30, 2022 was primarily due to a $5.7 million benefit related to excess tax benefits from stock compensation.

Changes to income tax laws and regulations, in any of the tax jurisdictions in which the Company operates, could impact the effective tax rate. Various governments, both U.S. and non-U.S., are increasingly focused on tax reform and revenue-raising legislation. Further, legislation in foreign jurisdictions may be enacted, in response to the base erosion and profit-sharing project begun by the Organization for Economic Cooperation and Development ("OECD"). The OECD recently finalized major reform of the international tax system with respect to a global minimum tax rate. Such changes in U.S. and non-U.S. jurisdictions could have an adverse effect on the Company’s effective tax rate.

As of June 30, 2023, the Company has not provided deferred income taxes on unrepatriated earnings from foreign subsidiaries as they are deemed to be indefinitely reinvested unless there is a manner under which to remit the earnings with no material tax cost. Material taxes would primarily be attributable to foreign withholding taxes and local income taxes when such earnings are distributed. The Company will repatriate foreign earnings when there is no need for reinvestment overseas and there is no material cost to bring the earnings back to the United States. Reinvestment considerations would include future acquisitions, transactions, and capital expenditure plans.

13. NET INCOME PER SHARE

Basic and diluted net income per share was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Dollars in thousands, except per share amounts	2023	2022	2023	2022
Basic net income per share:				
Net income	$ 4,184	$ 44,788	$ 28,410	$ 77,689
Weighted average common shares outstanding	80,966	83,168	81,418	83,400
Basic net income per common share	$ 0.05	$ 0.54	$ 0.35	$ 0.93
Diluted net income per share:				
Net income	$ 4,184	$ 44,788	$ 28,410	$ 77,689
Weighted average common shares outstanding — Basic	80,966	83,168	81,418	83,400
Effect of dilutive securities:				
Stock options and restricted stock	185	454	321	579
Weighted average common shares for diluted earnings per share	81,151	83,622	81,739	83,979
Diluted net income per common share	$ 0.05	$ 0.54	$ 0.35	$ 0.93

Common stock of approximately 0.6 million and 0.2 million shares at June 30, 2023, and 2022, respectively that are issuable through exercise of dilutive securities were not included in the computation of diluted net income per share because their effect would have been anti-dilutive.

14. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Comprehensive income for the six months ended June 30, 2023 and 2022 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Dollars in thousands	2023	2022	2023	2022
Net income	$ 4,184	$ 44,788	$ 28,410	$ 77,689
Foreign currency translation adjustment	133	(18,067)	4,209	(23,749)
Change in unrealized loss/(gain) on derivatives, net of tax	(2,601)	25,922	(9,978)	55,744
Pension liability adjustment, net of tax	231	(45)	334	(54)
Comprehensive income, net	$ 1,947	$ 52,598	$ 22,975	$ 109,630

Changes in accumulated other comprehensive income by component between December 31, 2022 and June 30, 2023 are presented in the table below, net of tax:

Dollars in thousands	Gains and Losses on Derivatives	Defined Benefit Pension Items	Foreign Currency Items	Total
Balance at January 1, 2023	$ 22,817	$ 9,322	$ (21,874)	$ 10,265
Other comprehensive gain (loss)	(9,565)	334	4,209	(5,022)
Less: Amounts reclassified from accumulated other comprehensive income, net	413	—	—	413
Net current-period other comprehensive gain (loss)	(9,978)	334	4,209	(5,435)
Balance at June 30, 2023	$ 12,839	$ 9,656	$ (17,665)	$ 4,830

For the six months ended June 30, 2023, the Company reclassified a gain of $9.4 million and a loss of $9.0 million from accumulated other comprehensive income to other income, 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 Instruments business, which sells more than 40,000 instrument patterns and surgical and lighting products to hospitals, surgery centers, dental, podiatry, and veterinary offices.
- The TT segment includes such offerings as skin and wound repair, plastics & surgical reconstruction products, bone grafts, and nerve and tendon repair products.

The Corporate and other category includes (i) various executive, finance, human resource, information systems and 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 and six months ended June 30, 2023 and 2022 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Dollars in thousands	2023	2022	2023	2022
Segment Net Sales				
Codman Specialty Surgical	$ 271,030	$ 257,863	$ 519,166	$ 505,171
Tissue Technologies	110,237	139,952	242,947	269,282
Total revenues	$ 381,267	$ 397,815	$ 762,113	$ 774,453
Segment Profit				
Codman Specialty Surgical	$ 116,341	$ 92,196	$ 227,274	$ 202,356
Tissue Technologies	8,062	61,626	60,343	115,519
Segment profit	124,403	153,822	287,617	317,875
Amortization	(3,026)	(3,304)	(6,134)	(7,198)
Corporate and other	(108,873)	(90,651)	(232,597)	(204,646)
Operating income	$ 12,504	$ 59,867	$ 48,886	$ 106,031

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 June 30,		Six Months Ended June 30,	
Dollars in thousands	2023	2022	2023	2022
United States	$ 276,782	$ 287,347	$ 547,784	$ 550,698
Europe	37,452	46,862	78,516	90,606
Asia Pacific	47,706	43,365	98,179	91,082
Rest of World	19,327	20,241	37,634	42,067
Total Revenues	$ 381,267	$ 397,815	$ 762,113	$ 774,453

16. COMMITMENTS AND CONTINGENCIES

In consideration for certain technology, manufacturing, distribution, and selling rights and licenses granted to the Company, the Company has agreed to pay royalties on sales of certain products that it sells. The royalty payments that the Company made under these agreements were not significant for any of the periods presented.

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 the Company's 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.

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.

Contingent Consideration

The Company determined the fair value of contingent consideration during the six month period ended June 30, 2023 and June 30, 2022 to reflect the change in estimate, 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 six months ended June 30, 2023 and June 30, 2022 is as follows (in thousands):

Contingent Consideration Liability Related to Acquisition of:

Six Months Ended June 30, 2023	Arkis		Location in Financial Statements	Derma Sciences	ACell	Surgical Innovations Associates, Inc. (FN 2)		Location in Financial Statements
	Short-term	Long-term		Long-term	Long-term	Short-term	Long-term	
Balance as of January 1, 2023	$ 2,845	$ 10,050		$ 230	$ 3,700	$ —	$ 57,607	
Transfers	—	—		—	—	12,500	(12,500)	
Change in fair value of contingent consideration liabilities	1,544	1,537	Research and development	—	(2,200)	200	5,000	Selling, general and administrative
Balance as of June 30, 2023	4,389	11,587		230	1,500	12,700	50,107	

Contingent Consideration Liability Related to Acquisition of:

Six Months Ended June 30, 2022	Arkis		Location in Financial Statements	Derma Sciences	ACell Inc.		Location in Financial Statements
	Short-term	Long-term		Long-term	Short-term	Long-term	
Balance as of January 1, 2022	$ 3,691	$ 11,408		$ 230	$ —	$ 21,800	
Transfers	—	—		—	4,885	(4,885)	
Change in fair value of contingent consideration liabilities	(155)	(1,978)	Research and development	—	(4,885)	1,219	Selling, general and administrative
Balance as of June 30, 2022	$ 3,536	$ 9,430		$ 230	$ —	$ 18,134	

Arkis BioSciences Inc.

As part of the acquisition of Arkis BioSciences Inc. ("Arkis"), the Company is required to pay the former shareholders of Arkis up to $25.5 million based on the timing of certain development milestones of $10.0 million and commercial sales milestones of $15.5 million, respectively. The Company used a probability weighted income approach to calculate the fair value of the contingent consideration that considered the possible outcomes of scenarios related to each specified milestone. The Company estimated the fair value of the contingent consideration to be $13.1 million at the acquisition date. The estimated fair value as of June 30, 2023 and June 30, 2022 was $16.0 million and $13.0 million, respectively. The Company recorded $11.6 million and $9.4 million in other liabilities at June 30, 2023 and June 30, 2022, respectively, and $4.4 million and $3.5 million in accrued expenses and other current liabilities at June 30, 2023 and June 30, 2022, respectively, in the consolidated balance sheet of the Company.

Derma Sciences

The Company assumed contingent consideration incurred by Derma Sciences, Inc. ("Derma Sciences") related to its acquisitions of BioD and the intellectual property related to Medihoney products. The Company accounted for the contingent liabilities by recording their fair value on the date of the acquisition based on a probability weighted income approach. The Company has already paid $33.3 million related to the aforementioned contingent liabilities. One contingent milestone remains which relates to net sales of Medihoney™ products exceeding certain amounts defined in the agreement between the Company and Derma Sciences. The potential maximum undiscounted payment amounts to $3.0 million. The estimated fair value as of June 30, 2023 and June 30, 2022 was $0.2 million.

ACell Inc.

As part of the ACell Acquisition, the Company is required to make payments to the former shareholders of ACell up to $100 million based on the achievement by the Company of certain revenue-based performance milestones in 2023 and 2025. The Company used iterations of the Monte Carlo simulation to calculate the fair value of the contingent consideration that considered the possible outcomes of scenarios related to each specific milestone. The Company estimated the fair value of the contingent consideration to be $23.9 million at the acquisition date. The estimated fair value as of June 30, 2023 was $1.5 million. The Company recorded $1.5 million and $18.1 million in other liabilities at June 30, 2023 and June 30, 2022, respectively, and $0.0 million in accrued expenses and other current liabilities at June 30, 2022 in the consolidated balance sheets of the Company. The change in the fair value of the contingent obligation was primarily as a result of changes in the timing and amount of revenue estimates.

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

The following discussion and analysis of the Company's 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, 2022 included in our Annual Report on Form 10-K.

We have made statements in this report that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q (this “Quarterly Report”), including statements regarding our future results of operations and financial position, business strategy and plans, objectives of management for future operations and current expectations or forecasts of future results, are forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and assumptions about the Company and other matters that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements.

These statements involve known and unknown risks, uncertainties, and other important factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. Our forward-looking statements may include statements related to our growth and growth strategies, developments in the markets for our products and services, financial results, development launches and effectiveness, research and development strategy, regulatory approvals, competitive strengths, the potential or anticipated direct or indirect impact of the Coronavirus pandemic on our business, results of operations, and/or financial condition, restructuring and cost-saving initiatives, intellectual property rights, litigation and tax matters, governmental proceedings and investigations, mergers and acquisitions, divestitures, market acceptance of our products and services, accounting estimates, financing activities, ongoing contractual obligations, working capital adequacy, value of our investments, our effective tax rate, our expected returns to shareholders, and sales efforts.

In some cases, these forward-looking statements may be identified by forward-looking words such as “believe,” “may,” “might,” “could,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “seek,” “plan,” “expect,” “should,” “would” and similar words and expressions in this report. Forward-looking statements in this Quarterly Report include, but are not limited to, statements regarding our ability to drive long-term shareholder value, development and future launches of products and continued or future acceptance of products and services in our segments; our ability to navigate and mitigate any on-going or future impact associated with economic disruptions, including supply chain constraints and inflation; expected timing for completion of research studies relating to our products; market positioning and performance of our products; divestitures and the potential benefits thereof; the costs and benefits of integrating previous acquisitions; anticipated timing for Food and Drug Administration (“FDA”) in the U.S., as well as for non-U.S. regulatory approval of new products; statements regarding the issues causing the voluntary removal of the Company’s CereLink ICP Monitor System and the Company’s voluntary recall of all products manufactured at its Boston facility; the potential effects of the process deviations identified at the Boston facility; the anticipated impact of the voluntary removal and recall and manufacturing stoppage on the Company’s business; the Company’s ability to address in a timely manner the product-related issues discussed herein and re-initiate sales of Cerelink and resume manufacturing activities at its Boston facility; our future financial performance; increased presence in new markets, including markets outside the U.S.; changes in the market and our market share; acquisitions and investment initiatives, including the timing of regulatory approvals as well as integration of acquired companies into our operations; the resolution of tax matters; the effectiveness of our development activities in reducing patient care costs and hospital stay lengths; our approach towards cost containment; our expectations regarding healthcare costs; general economic conditions; and the potential impact of our compliance with governmental regulations and accounting guidance.

We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, results of operations, financial condition, and/or cash flows. These forward-looking statements speak only as of the date of this Quarterly Report and are subject to a number of risks, uncertainties and assumptions described in the “Risk Factors” section and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2022. As forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on these forward-looking statements as predictions of future events. One must carefully consider forward-looking statements and understand that such forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, and involve a variety of risks and uncertainties, known and unknown, including, among others, those discussed in the sections entitled “Government Regulation and Compliance” within “Item 1. Business” and “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent required by applicable law.

GENERAL

Integra is a global leader in regenerative tissue technologies and neurological solutions dedicated to limiting uncertainty for clinicians so they can focus on providing the best patient care. Founded in 1989 with the acquisition of an engineered collagen technology platform used to repair and regenerate tissue, Integra LifeSciences Holdings Corporation common stock trades on the Nasdaq Global Select Market (“Nasdaq”) under the symbol “IART.” 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, as well as nerves and tendons. We have expanded our base regenerative technology business to include surgical instruments, neurosurgical products and advanced wound care through global acquisitions and product development to meet the evolving needs of our customers and enhance patient care.

We manufacture and sell medical technologies and products in two reportable business segments: Codman Specialty Surgical ("CSS") and Tissue Technologies ("TT"). The CSS segment, which represents approximately two-thirds of our total revenue, consists of market-leading technologies and instrumentation used for a wide range of specialties, such as neurosurgery, neurocritical care and otolaryngology. We are the world leader in neurosurgery and one of the top three providers in instruments used in precision, specialty, and general surgical procedures. Our TT segment generates about one-third of our overall revenue and focuses on three main areas: complex wound surgery, surgical reconstruction, and peripheral nerve repair.

We have key manufacturing and research facilities located in California, Indiana, Maryland, Massachusetts, New Jersey, Ohio, Puerto Rico, Tennessee, Utah, France, Germany, Ireland and Switzerland. We source most of our handheld surgical instruments and sealant products through specialized third-party vendors.

Integra is committed to restoring patients’ lives through technologies and products that transform surgical, neurologic and regenerative care. Our mission is to innovate treatment pathways to advance patient outcomes and set new standards of care. In connection with the completion of our strategic refresh, we refocused our strategies around five pillars. Of these five pillars, we have identified three core growth drivers, innovating for outcomes, growing internationally, and broadening our impact on care pathways, which are enabled by two key levers, driving operational and customer excellence and cultivating a high-performance culture. As outlined in greater detail below, we believe these five pillars will enable us to realize and advance our integrated growth strategy:

Innovating for Outcomes. An important part of Integra’s growth strategy is introducing new products to strengthen and expand our portfolio. Additionally, we seek clinical evidence to support regulatory approval and strong reimbursement of our product portfolio around the world, including new indications for existing technologies. On December 6, 2022, we completed the acquisition of Surgical Innovation Associates, Inc. (“SIA”), which develops, markets and sells DuraSorb, a resorbable synthetic matrix for plastic and reconstructive surgery. This acquisition advances our global strategy in breast reconstruction, expanding plans to access the U.S. market where SIA is pursuing pre-market approval for use in implant-based breast reconstruction ("IBBR"). As part of our commitment to implant-based breast reconstruction strategy and innovating new treatment pathways, in June 2023 we completed enrollment in the DuraSorb U.S. investigational device exemption (IDE) clinical study for two-stage breast reconstruction. We also continued to advance the development of pioneering neurosurgical technologies with the expansion of our product offerings. In early 2023, the CUSA® Clarity Bone Tip was launched in U.S., which is used when controlled fragmentation, emulsification and aspiration of bone is necessary. This follows the CUSA® Clarity extended laparoscopic tip, launched in the U.S. in late 2022 to enhance the benefits of ultrasonic ablation to minimally invasive laparoscopic liver surgery.

Growing International. Over the years, we have been significantly expanding our global footprint through investments in our commercial organization, expansion and development of international markets and new product introductions. Several new products were introduced in 2023, including MicroMatrix® and Certas Plus® Programmable Valve which were launched in Europe, and CUSA Clarity Laparoscopic ("Lap") tip which was launched in Australia, New Zealand, Japan, Canada, South Africa and Israel. In addition, DuraGen Secure received approval in Japan, while DuraGen Plus was approved in China.

Broadening Impact on Care Pathways. Integra seeks ways to develop products and technologies that impact the lives of patients, starting with the journey that a patient takes from diagnosis and treatment planning to surgery and postoperative care. Integra is well-established in acute care in the hospital setting and plans to leverage that strong position to grow in this segment and shape treatment pathways into preoperative care and additional sites of care.

Driving Operations and Customer Excellence. Integra has been making investments to build more responsive and scalable processes, enhance the reliability of our supply chain, and drive productivity initiatives to further supply and lower costs. Additionally, we continue to invest in technologies, systems and processes to enhance the customer experience. In 2022, certain transactional back-office finance and customer service activities were outsourced to enhance customer quality, build scale for future growth, and capture cost efficiencies.

Cultivating a High-Performance Culture. Creating a culture focused on empowerment and agility and building a diverse and inclusive workplace are cornerstones of our people strategy. These efforts resulted in Integra being named in several best workplace lists globally in 2022, including Integra China being recognized as a Great Place to Work in Greater China.

Additionally, we have been making great strides in advancing our environmental, social and governance ("ESG") agenda to drive sustainability across the organization and recently published our first ESG report in late 2022.

Clinical and Product Development Activities

Integra continues 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 2022, we made progress to several enhancements to our CUSA Clarity Tissue Ablation System. The extended laparoscopic tip was launched in the U.S. to enhance laparoscopic liver procedures. In addition, a single-sided bone tip received 510(k) clearance. In early 2023, we had our commercial launch with initial surgeries successfully completed. We continue to update our CUSA Clarity platform by incorporating new ultrasonic handpiece and integrated electrosurgical capabilities.

In 2023, we continued to advance the early-stage technology platforms we acquired in 2019. Through the acquisition of Arkis Biosciences, Inc. ("Arkis") we added a platform technology, CerebroFlo® external ventricular drainage ("EVD"), catheter with Endexo® technology, a permanent additive designed to reduce the potential for catheter obstruction due to thrombus formation. The CerebroFlo EVD Catheter has demonstrated an average of 99% less thrombus accumulation onto its surface, in vitro, compared to a market leading EVD catheter. Our work to combine our bactiseal antimicrobial technology with the Endexo anti-occlusive technology obtained through our 2019 acquisition of Arkis continues to progress for both a silicone-based hydrocephalus and EVD project.

In 2023, we continued to advance our innovation from the Rebound Therapeutics Corporation ("Rebound Therapeutics"), which was acquired in 2019. Rebound Therapeutics specializes in single-use medical device, known as Aurora Surgiscope, which is the only tubular retractor system designed for cranial surgery with an integrated access channel, camera and lighting. In the third quarter of 2021, we conducted a limited clinical launch of the Aurora Surgiscope for use in minimally invasive neurosurgery as well as initiated a registry called MIRROR to collect data on early surgical intervention using this same technology platform for blood evacuation. In 2022, we launched the Aurora® Evacuator with Coagulation device in the U.S., designed to be used in conjunction with our Aurora Surgiscope to safely address and evacuate fluid in the brain.

We are focused on the development of core clinical applications in our electromechanical technologies portfolio. In June 2022, we launched the Neutus® EVD system, our first EVD in China. The Neutus EVD system is manufactured in China by Shanghai Haoju Medical Technology Co., Ltd. under an exclusive distribution arrangement. The device is used in the management of CSF and is highly complementary to our Bactiseal® catheter and advanced intercranial pressure monitoring products. In 2021, we launched our CereLink ICP Monitor System in the U.S. and Europe direct markets and continued the global rollout in the first half of 2022. Refer below to the information appearing in the "FDA Matters" section for additional information on the voluntary recall of the CereLink ICP Monitor System.

Within our TT segment, in 2022, we launched NeuraGen 3D Nerve Guide Matrix, a resorbable implant for repair of peripheral nerve discontinuities and engineered to create an optimized environment for nerve regeneration. In the third quarter of 2021, we filed the PMA application for a specific indication for SurgiMend in the use of post-mastectomy breast reconstruction, for which we hope to obtain FDA approval in 2024. On December 6, 2022, we completed the acquisition of SIA, which develops, markets and sells DuraSorb®, a resorbable synthetic matrix for plastic and reconstructive surgery. This acquisition advances our global strategy in breast reconstruction, expanding plans to access the U.S. market where SIA is pursuing pre-market approval for use in IBBR.

FDA Matters

On August 18, 2022, we, after consultation with the FDA and other regulatory authorities outside of the United States, initiated an immediate voluntary global product removal of all CereLink intracranial pressure monitors as a result of customer reports about monitors whose pressure readings were out of range. We believe that the out-of-range readings are principally caused by electrical interference from the external environment and/or interference from a component on the circuit board of the monitor. These out-of-range readings have occurred at a low incidence rate and at a limited number of sites; however, out of an abundance of caution, we removed all CereLink monitors from the field.

We are continuing our work to remedy the observed issue and currently anticipate resuming shipments of the CereLink monitors beginning late in the third quarter of 2023. Based on the outlook for returning the product to market and feedback from customers, we recorded a $1.9 million provision for product returns, as a reduction of net revenue, and a $0.8 million rework accrual in cost of goods sold in 2022. In the first half of 2023 we recorded an additional $0.8 million in provision for product returns as a reduction of net revenue, and no additional rework costs.

On March 7, 2019, TEI Biosciences, Inc. ("TEI"), one of our wholly-owned subsidiaries, received a Warning Letter (the “2019 Warning Letter”), dated March 6, 2019, from the FDA. The 2019 Warning Letter related to quality systems issues at TEI's 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. We submitted our initial response to the 2019 Warning Letter on March 28, 2019 and provide regular progress reports to the FDA as to its corrective actions. On October 28, 2021, the FDA initiated an inspection of the facility and at the conclusion of the inspection issued an FDA Form 483 on November 12, 2021 (the "2021 Form 483"). We provided an initial response to the inspection observations and will continue to provide responses to the FDA. On March 1, 2023, the FDA commenced an inspection of the Boston facility, and issued an FDA Form 483 at the conclusion of this inspection (the “2023 Form 483”). On July 19, 2023, TEI received a Warning Letter, dated July 17, 2023, from the FDA related to quality system issues at the TEI Boston facility (the “2023 Warning Letter”). The 2023 Warning Letter did not identify any new observations that had not already been provided in the 2023 Form 483. The Company submitted an initial response to the 2023 Form 483 to the FDA and is in the process of preparing a written response to the 2023 Warning Letter. We are committed to resolving the matters identified in the Warning Letters and Form 483s and are continuing our significant efforts to remediate the observations. Although the Warning Letters and the Form 483s do not restrict our ability to manufacture or ship products or require the recall of any products, in May 2023, after consultation with the FDA, the Company initiated a voluntary recall of products manufactured in the Boston facility distributed between March 1, 2018 and May 22, 2023, and extended the temporary halt of manufacturing at the facility to implement additional detection and quality controls. Following implementation of such controls, the Company expects to resume manufacturing at its Boston facility by late in the fourth quarter of 2023. Additionally, the Warning Letters do not restrict the Company’s ability to seek FDA 510(k) clearance of products, but 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 addressed. The Boston facility manufactures extracellular bovine matrix products. We cannot give any assurances that the FDA will be satisfied with our response to the issues identified by the FDA or as to the expected date of the resolution of such issues. Until the issues cited by the FDA 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 year ended December 31, 2022 were approximately 5.3% of consolidated revenues. In the second quarter of 2023, due to the voluntary recall of Primatrix®, Surgimend®, Revize™, and TissueMend™, the Company recorded a $12.9 million provision for product returns, as a reduction of net revenue. Of this amount, $0.7 million was paid out in Q2. The Company also recorded a $24.1 million write off of inventory that was no longer able to be sold.

Optimization and Integration Activities

As a result of our ongoing acquisition strategy and significant growth in recent years, we have undertaken cost-saving initiatives to consolidate manufacturing operations, distribution facilities and transfer activities, eliminate duplicative positions, realign various sales and marketing activities, and expand and upgrade production capacity for our regenerative technology products. These efforts are expected to continue and while we expect a positive impact from ongoing restructuring, integration, and manufacturing transfer and expansion activities, such results remain uncertain. In support of our continued focus on product margins during 2022, we closed a manufacturing facility located in France and transferred production to our existing Switzerland facility. In 2022, we outsourced certain transactional back-office finance and customer service activities to enhance customer quality, build scale for future growth, and capture cost efficiencies.

RESULTS OF OPERATIONS

Executive Summary

Net income for the three months ended June 30, 2023 was $4.2 million, or $0.05 per diluted share, as compared to $44.8 million or $0.54 per diluted share for the three months ended June 30, 2022. The decrease in net income for the three months ended June 30, 2023, was primarily driven by impacts from the Boston recall of our TEI products, including inventory write-offs of $24.1 million and a provision for product returns of $12.9 million.

Special Charges

Income before taxes includes the following special charges:

Dollars in thousands	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Acquisition, divestiture and integration-related charges	$ 3,448	$ (6,284)	$ 12,224	$ (5,710)
Structural optimization charges	4,794	8,172	9,129	14,492
EU medical device regulation	9,278	10,249	20,682	19,762
Boston recall expenses[1]	28,051	—	28,051	—
Total	$ 45,571	$ 12,137	$ 70,086	$ 28,544

[1] This includes inventory write-offs and idle capacity charges.

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

Dollars in thousands	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023 2023	Six Months Ended June 30, 2023 2022
Cost of goods sold	$ 33,148	$ 5,131	$ 39,214	$ 9,661
Research and development	4,212	5,538	8,431	9,805
Selling, general and administrative	8,338	2,661	23,069	11,563
Other income	(127)	(1,193)	(628)	$ (2,485)
Total	$ 45,571	$ 12,137	$ 70,086	$ 28,544

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, divestiture, integration and restructuring activities, and for which the amounts are non-cash in nature, and 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, against the business model 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

The Company's revenues and gross margin on product revenues were as follows:

Dollars in thousands	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Segment Net Sales				
Codman Specialty Surgical	$ 271,030	$ 257,863	$ 519,166	$ 505,171
Tissue Technologies	110,237	139,952	242,947	269,282
Total revenues	$ 381,267	$ 397,815	$ 762,113	774,453
Cost of goods sold	174,241	148,404	322,216	290,973
Gross margin on total revenues	$ 207,026	$ 249,411	$ 439,897	$ 483,480
Gross margin as a percentage of total revenues	54.3 %	62.7 %	57.7 %	62.4 %

Three Months Ended June 30, 2023 as Compared to Three Months Ended June 30, 2022

Revenues

For the three months ended June 30, 2023, total revenues decreased by $16.5 million to $381.3 million from $397.8 million for the same period in 2022, inclusive of an unfavorable foreign currency impact of $1.7 million on revenues, as well as a $3.2 million decrease that impacts both domestic and international revenues related to the divestiture of the TWC business. This also includes an increase of $2.4 million related to the SIA acquisition. Excluding the impacts of these items, domestic revenues decreased by $12.2 million, or 4.3% as compared to the prior year period. International revenues decreased by $1.8 million or 1.7% as compared to the prior period. The decrease in domestic revenues was primarily driven by decreases related to the Boston recall, offset by increases in our Instruments portfolio. The decrease in international revenues was primarily driven by decreases related to the Boston recall, offset by increases in the neurosurgery and instruments portfolio.

In the CSS segment, revenues were $271.0 million which was an increase of $13.2 million, or 5.1% as compared to the prior-year period, inclusive of a $1.7 million unfavorable foreign currency impact on revenue. Excluding the impact of foreign exchange, Neurosurgery portfolio grew low single digits primarily due to sales in Dural Access and Programmable Valves. Sales in our instruments portfolio increased low-double digits as compared to the same period in the prior year.

In the TT segment, revenues were $110.2 million which was a decrease of $29.7 million, or 21.2% from the prior-year period, with no meaningful impact from foreign currency on revenue, as well as a $3.2 million decrease that impacts both domestic and international revenues related to the divestiture of the TWC business. This also includes an increase of $2.4 million related to the SIA acquisition. Excluding the impact of these items, the primary driver of the decrease was related to the Boston recall.

Gross Margin

Gross margin was $207.0 million for the three months ended June 30, 2023, a decrease of $42.4 million from $249.4 million for the same period in 2022. Gross margin as a percentage of revenues was 54.3% for the three months ended June 30, 2023 and 62.7% for the same period in 2022. This decrease in gross margin is primarily the result of expenses associated with the Boston recall.

Operating Expenses

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

	Three Months Ended June 30,	
	2023	2022
Research and development	7.0 %	6.4 %
Selling, general and administrative	43.3 %	40.4 %
Intangible asset amortization	0.8 %	0.8 %
Total operating expenses	51.1 %	47.6 %

Total operating expenses, which consist of research and development, selling, general and administrative, and amortization expenses, increased by $5.0 million, or 2.6% to $194.5 million in the three months ended June 30, 2023, compared to $189.5 million in the same period in 2022. The increase in operating expenses compared to the prior year is primarily a result of the SIA acquisition combined with higher spend in selling activities as a percentage of revenue.

Research and Development

Research and development expenses for the three months ended June 30, 2023 increased by $1.0 million as compared to the same period in the prior year. This increase in spending resulted from additional spending related to the SIA acquisition, new product development and clinical studies.

Selling, General and Administrative

Selling, general and administrative costs for the three months ended June 30, 2023 increased by $4.3 million as compared to the same period in the prior year driven primarily due to increased costs associated with SIA acquisition and costs associated with higher spend in commercial selling activities.

Intangible Asset Amortization

Amortization expense (excluding amounts reported in cost of product revenues for technology-based intangible assets) for the three months ended June 30, 2023 was $3.0 million compared to $3.3 million for the same period in the prior year.

Non-Operating Income and Expenses

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

	Three Months Ended June 30,	
Dollars in thousands	2023	2022
Interest income	$ 3,939	$ 1,965
Interest expense	(12,464)	(12,236)
Other income, net	(155)	1,979
Total non-operating income and expense	$ (8,680)	$ (8,292)

Interest Income

Interest income for the three months ended June 30, 2023 increased by $2.0 million as compared to the same period in the prior year due to higher interest rates.

Interest Expense

Interest expense for the three months ended June 30, 2023 increased by $0.2 million as compared to the same period in the prior year.

Other Income, net

Other income, net for the three months ended June 30, 2023 decreased by $2.1 million compared to the same period in the prior year. The decrease is primarily driven by lower Transition Service Agreement ("TSA") income from our recent divestitures.

Income Taxes

	Three Months Ended June 30,	
Dollars in thousands	2023	2022
Income before income taxes	$ 3,824	$ 51,575
Income tax (benefit) expense	(360)	6,787
Effective tax rate	(9.4)%	13.2 %

Our effective income tax rates for the three months ended June 30, 2023 and 2022 were (9.4)% and 13.2%, respectively.

For the three months ended June 30, 2023, the primary drivers of the lower tax rate relate to a reduction to book income and a $1.1 million benefit associated with the Federal R&D credit.

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 the Company's history of generating taxable earnings, in assessing our ability to realize tax assets on a quarterly basis.

Additionally, changes to income tax laws and regulations, in any of the tax jurisdictions in which we operate, could impact the effective tax rate. Various governments, both U.S. and non-U.S., are increasingly focused on tax reform and revenue-raising legislation. Further, legislation in foreign jurisdictions may be enacted, in response to the base erosion and profit-shifting project begun by the Organization for Economic Cooperation and Development ("OECD"). The OECD recently finalized major reform of the international tax system with respect to implementing a global minimum tax rate. Such changes in U.S. and non-U.S. jurisdictions could have an adverse effect on the Company’s effective tax rate.

While it is often difficult to predict the outcome or the timing of the resolution of a 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 a particular issue would usually require the use of cash. A favorable resolution would be recognized as a reduction to our annual effective tax rate in the year of resolution. Our 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.

Six Months Ended June 30, 2023 as Compared to Six Months Ended June 30, 2022

Revenues and Gross Margin

For the six months ended June 30, 2023, total revenues decreased by $12.3 million to $762.1 million from $774.5 million for the same period in 2022, inclusive of an unfavorable foreign currency impact of $8.7 million on revenues, as well as a $7.7 million decrease that impacts both domestic and international revenues related to the divestiture of the TWC business. This also includes an increase of $4.2 million related to the SIA acquisition. Excluding the impacts of these items, domestic revenues decreased by $5.4 million, or 1.0% as compared to the prior year period. International revenues increased by $5.3 million or 2.4% as compared to the prior period. The decrease in domestic revenues was primarily driven by decreases related to the Boston recall, offset by increases in our Instruments portfolio. The decrease in international revenues was primarily driven by decreases related to the Boston recall, offset by increases in the neurosurgery and instruments portfolio.

In the CSS Segment segment revenues were $519.2 million an increase of $14.0 million, or 2.8% from the prior period, inclusive of a $8.1M unfavorable foreign currency impact on revenue. Excluding the impact of foreign exchange, Neurosurgery portfolio grew low single digits primarily due to sales in Dural Access and Programmable Valves. Sales in our instruments portfolio increased low-double digits as compared to the same period in the prior year.

In the Tissue Technologies segment revenues were $242.9 million, a decrease of $26.3 million, or 9.8% from the prior-year period, inclusive of a $0.6 million unfavorable foreign currency impact on revenue, as well as a $7.7 million decrease that impacts both domestic and international revenues related to the divestiture of the TWC business. This also includes an increase of $4.2 million related to the SIA acquisition. Excluding the impact of these items, the primary diver of the decrease was related to the Boston recall.

Gross Margin

Gross margin was $439.9 million for the six months ended June 30, 2023, a decrease of $43.6 million from $483.5 million for the same period last year. Gross margin as a percentage of total revenue decreased to 57.7% for the six months ended June 30, 2023 from 62.4% in the same period last year. The decrease in gross margin percentage was due to expenses associated with the Boston recall.

Operating Expenses

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

	Six Months Ended June 30,	
	2023	2022
Research and development	7.0 %	6.4 %
Selling, general and administrative	43.5 %	41.4 %
Intangible asset amortization	0.8 %	0.9 %
Total operating expenses	51.3 %	48.7 %

Total operating expenses, which consist of selling, general and administrative expenses, research and development expenses, and amortization expenses, increased by $13.6 million, or 3.6% to $391.0 million in the six months ended June 30, 2023, compared to $377.4 million in the same period in 2022.

Research and Development

Research and development expenses for the six months ended June 30, 2023 increased by $3.6 million as compared to the same period in the prior year. This increase in spending resulted from additional spending related to the SIA acquisition, new product development and clinical studies.

Selling, General and Administrative

Selling, general and administrative costs increased by $11.0 million as compared to the same period in the prior year driven primarily due to increased selling costs associated with SIA acquisition and costs associated with higher spend in commercial selling activities.

Intangible Asset Amortization

Amortization expense (excluding amounts reported in cost of product revenues for technology-based intangible assets) for the six months ended June 30, 2023 was $6.1 million compared to $7.2 million for the same period in prior year.

We expect total annual amortization expense to be approximately $41.4 million for the remainder of 2023, $82.2 million in 2024, $82.2 million in 2025, $82.0 million in 2026, $80.0 million in 2027, $78.5 million in 2028 and $477.1 million thereafter.

Non-Operating Income and Expenses

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

	Six Months Ended June 30,	
Dollars in thousands	2023	2022
Interest income	$ 8,046	$ 3,342
Interest expense	(24,564)	(23,891)
Other income, net	1,234	5,408
Total non-operating income and expense	$ (15,284)	$ (15,141)

Interest Income

Interest income for the six months ended June 30, 2023 increased by $4.7 million as compared to the same period last year due to higher interest rates.

Interest Expense

Interest expense for the six months ended June 30, 2023 increased by $0.7 million as compared to the same period last year.

Other Income, net

Other income, net for the six months ended June 30, 2023, decreased by $4.2 million primarily due to lower Transition Service Agreement ("TSA") income from our recent divestitures.

	Six Months Ended June 30,	
Dollars in thousands	2023	2022
Income before income taxes	$ 33,602	$ 90,890
Income tax (benefit) expense	5,192	13,201
Effective tax rate	15.5 %	14.5 %

The Company’s effective income tax rates for the six months ended June 30, 2023 and 2022 were 15.5% and 14.5%, respectively.

For the six months ended June 30, 2023, the primary drivers of the tax rate relate to a reduction to book income and a $1.1 million benefit associated with the Federal R&D credit. The lower rate from the six months ended June 30, 2022 was primarily due to a $5.7 million benefit related to excess tax benefits from stock compensation.

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 June 30,		Six Months Ended June 30,	
Dollars in thousands	2023	2022	2023	2022
United States	$ 276,782	$ 287,347	$ 547,784	$ 550,698
Europe	37,452	46,862	78,516	90,606
Asia Pacific	47,706	43,365	98,179	91,082
Rest of World	19,327	20,241	37,634	42,067
Total Revenues	$ 381,267	$ 397,815	$ 762,113	$ 774,453

We generate significant revenues outside the U.S., a portion of which are U.S. dollar-denominated transactions conducted with customers that 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 decreased by $10.6 million for the three months ended June 30, 2023 compared to the same period last year. European sales decreased by $9.4 million for the three months ended June 30, 2023 compared to the same period last year. Sales to customers in Asia Pacific increased by $4.3 million for the three months ended June 30, 2023. Sales to customers in the the Rest of World for the three months ended June 30, 2023 decreased by $0.9 million compared to the same period last year. The international revenues were impacted by $1.7 million of unfavorable foreign exchange impact, with the larger impact in Europe. The decrease in global revenues is primarily the result of the Boston recall which affected both Domestic and International markets. Sales in Japan and China led to continued growth in our Asia Pacific market.

Domestic revenues decreased by $2.9 million for the six months ended June 30, 2023 compared to the same period last year. European sales decreased by $12.1 million for the six months ended June 30, 2023 compared to the same period last year. Sales to customers in Asia Pacific increased by $7.1 million million for the six months ended June 30, 2023. Sales to customers in the Rest of World for the six months ended June 30, 2023 decreased by $4.4 million million compared to the same period last year.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

The Company's working capital as of June 30, 2023 and December 31, 2022 was $673.8 million and $840.6 million, respectively. Working capital consists of total current assets less total current liabilities as presented in the consolidated balance sheets.

Cash and Marketable Securities

The Company had cash and cash equivalents totaling approximately $309.2 million and $456.7 million at June 30, 2023 and December 31, 2022 respectively, which are valued based on Level 1 measurements in the fair value hierarchy. At June 30, 2023, our non-U.S. subsidiaries held approximately $267.1 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 no material tax cost to remit the earnings into the U.S..

Cash Flows

	Six Months Ended June 30,	
Dollars in thousands	2023	2022
Net cash provided by operating activities	$ 54,435	$ 110,822
Net cash used in investing activities	(29,252)	(18,565)
Net cash used in financing activities	(173,376)	(146,612)
Effect of exchange rate fluctuations on cash	724	(11,941)

Cash Flows Provided by Operating Activities

Operating cash flows for the six months ended June 30, 2023 decreased by $56.4 million compared to the same period in 2022. Within operating cash flows, net income less non-cash adjustments decreased for the six months ended June 30, 2023 by approximately $45.3 million as compared to the same period in 2022 primarily due to lower revenues and margins and higher selling expenses.

The changes in assets and liabilities for the six months ended June 30, 2023, net of business acquisitions, decreased cash flows by $57.6 million, mainly attributable to increases in inventory and other current assets, offset by increases in accrued expenses and other current liabilities due to reduced payments processed in the quarter.

The changes in assets and liabilities for the six months ended June 30, 2022, net of business acquisitions, decreased cash flows by $46.5 million, primarily due to increases in inventory to support increased sales and decreases in accounts payable, accrued expenses and other current liabilities due to increased payments processed in the quarter.

Cash Flows Used in Investing Activities

During the six months ended June 30, 2023, we paid $29.3 million for capital expenditures to support operations improvement initiatives at a number of our manufacturing facilities and other information technology investments.

During the six months ended June 30, 2022, we paid $18.7 million for capital expenditures to support operations improvement initiatives at a number of our manufacturing facilities and other information technology investments as well as the final $4.7 million payment related to the final developmental milestone for Rebound Therapeutics Corporation. This was partially offset by $4.9 million proceeds on cross-currency swaps.

Cash Flows Used in Financing Activities

Uses of cash from financing activities in the six months ended June 30, 2023 related to the repurchase of treasury stock of $150.0 million under the 2023 accelerated share repurchase agreement, repayments of $29.1 million under our Senior Credit Facility and Securitization Facility. We also had $7.6 million in payment of debt issuance costs. In addition, the Company had $5.3 million in cash taxes paid for net equity settlements.

Sources of cash from financing activities for the six months ended June 30, 2023 were $15.2 million borrowing under our Senior Credit Facility and Securitization Facility and $3.4 million proceeds from the exercise of stock options.

Uses of cash from financing activities in the six months ended June 30, 2022 related to the repurchase of treasury stock of $125.0 million under the 2022 accelerated share repurchase agreement, repayments of $23.0 million under our Senior Credit Facility and Securitization Facility. In addition, we had $23.2 million in cash taxes paid for net equity settlements.

Sources of cash from financing activities for the six months ended June 30, 2022 were $23.0 million borrowing under our Senior Credit Facility and Securitization Facility and $1.6 million proceeds from the exercise of stock options.

Amended and Restated Senior Credit Agreement, Convertible Senior Notes, Securitization and Related Hedging Activities

See Note 6. *Debt,* to the Notes to Unaudited Condensed Consolidated Financial Statements (Part I, Item 1 of this Quarterly Report) for a discussion of our Amended and Restated Senior Credit Agreement, the 2025 Notes and Securitization Facility and Note 7, *Derivative Instruments,* to the Notes to Unaudited Condensed Consolidated Financial Statements (Part I, Item 1 of this Quarterly Report) for discussion of our hedging activities. We are forecasting that sales and earnings for the next twelve months will be sufficient to remain in compliance with our financial covenants under the terms of the March 2023 Amendment to the Senior Credit Facility.

Share Repurchase Plan

On January 26, 2023, the Company entered into a $150 million accelerated share repurchase ("2023 ASR") and received 2.1 million shares of the Company common stock at inception of the 2023 ASR, which represented approximately 80% of the expected total shares under the 2023 ASR. The settlement of the ASR agreement was completed in two separate transactions on April 26, 2023 and May 4, 2023, where the Company received an additional 0.30 million and 0.31 million shares respectively, determined using the volume-weighted average price of the Company's common stock during the term of the 2023 ASR.

On January 12, 2022, we entered into a $125.0 million accelerated share repurchase ("2022 ASR") and received 1.48 million shares of our common stock at inception of the 2022 ASR, which represented approximately 80% of the expected total shares under the 2022 ASR. On March 24, 2022, the early exercise provision under the 2022 ASR was exercised by 2022 ASR counterparty. Upon settlement of the 2022 ASR on March 24, 2022, we received an additional 0.46 million shares determined using the volume-weighted average price of our common stock during the term of the 2022 ASR.

See *Note 11. Treasury Stock,* to the Notes to Unaudited Condensed Consolidated Financial Statements (Part I, Item 1 of this Quarterly Report) for further details.

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 the Board and will depend upon our financial condition, results of operations, cash flows and other factors deemed relevant by the Board.

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

We do not have any off–balance sheet financing arrangements during the six months ended June 30, 2023 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

We will continue to have cash requirements to support seasonal working capital needs and capital expenditures, to pay interest, to service debt, and to fund acquisitions. As part of our ongoing operations, we enter into contractual arrangements that obligate us to make future cash payments.

Our primary obligations include principal and interest payments on revolving portion and Term Loan component of the Senior Credit Facility, Securitization Facility and Convertible Securities. See *Note 6. Debt,* to the Notes to Consolidated Financial Statements (Part I, Item 1 of this Quarterly Report) for details. We also lease some of our manufacturing facilities and office buildings which have future minimum lease payments associated. See *Note 10. Leases and Related Party Leases*, to the Notes to Consolidated Financial Statements (Part I, Item 1 of this Quarterly Report) for a schedule of our future minimum lease payments. Amounts related to our other obligations, including employment agreements and purchase obligations were not material.

The Company has contingent consideration obligation related to prior and current year acquisitions and future pension contribution obligations. See *Note 9. Retirement Plans*, and *Note 16. Commitments and Contingencies*, to the Notes to Unaudited Condensed Consolidated Financial Statements (Part I, Item 1 of this Quarterly Report) for details. The associated obligations are not fixed. We also have a liability for uncertain tax benefits including interest and penalties. We cannot make a reliable estimate of the period in which the uncertain tax benefits may be realized.

OTHER MATTERS

Critical Accounting Estimates

We based the discussion and analysis of our financial condition and results of operations upon our consolidated financial statements, which have been prepared in conformity with GAAP. The preparation of these financial statements requires us 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. The critical accounting estimates discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 did not materially change in the three months ended June 30, 2023.

Recently Issued Accounting Standards

Information regarding new accounting pronouncements is included in *Note 1. Basis of Presentation*, to the Notes to Unaudited Condensed Consolidated Financial Statements (Part I, Item 1 of this Quarterly Report), and is applicable 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, British pounds, Swiss francs, 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. Refer to *Note 7. Derivative Instruments*, to Notes to Unaudited Condensed Consolidated Financial Statements (Part I, Item 1 of this Quarterly Report) for further information.

We maintain written policies and procedures governing our risk management activities. With respect to derivatives, changes in hedged items 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 due to 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 points movement in interest rates applicable to our cash and cash equivalents outstanding at June 30, 2023 would impact interest income by approximately $3.1 million on an annual basis. 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 SOFR-indexed borrowings. We use interest rate swap derivative instruments to manage our earnings and cash flow exposure to changes in interest rates. These interest rate swaps fix the interest rate on a portion of our expected SOFR-indexed floating-rate borrowings. These interest rate swaps were designated as cash flow hedges as of June 30, 2023. The total notional amounts related to the Company’s interest rate swaps were $1.5 billion with $775.0 million effective as of June 30, 2023. Based on our outstanding borrowings at June 30, 2023, a 100 basis points change in interest rates would have impacted interest expense on the unhedged portion of the debt by $0.9 million on an annualized basis. See *Note 7. Derivative Instruments*, to the Notes to Unaudited Condensed Consolidated Financial Statements (Part I, Item 1 of this Quarterly Report) for further information regarding interest rate swaps.

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 SEC’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 June 30, 2023. Based upon this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2023 to provide such reasonable assurance.

Changes in Internal Control Over Financial Reporting

There were no 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 June 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

In response to business integration activities, we have 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

Information pertaining to legal proceedings can be found in *Note 16, Commitments and Contingencies*, to the Notes to Unaudited Condensed Consolidated Financial Statements (Part I, Item 1 of this Quarterly Report).

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 and subsequent periodic reports filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act").

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

The following table provides information about purchases by the Company during the quarter ended June 30, 2023 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act. Subject to applicable law, share repurchases may be made from time to time in open market transactions, privately negotiated transactions including accelerated share repurchase agreements, or pursuant to instruments and plans complying with Rule 10b5-1 under the Exchange Act, among other types of transactions and arrangements.

Issuer purchases of equity securities

Period	Total number of shares purchased by month	Average price paid per share	Total number of shares purchased by month as part of publicly announced repurchase programs	Approximate dollar value of shares that may yet be purchased under the plans or program
04/01/23 - 04/30/23	303,129	$ 55.32	303,129	$ 75,000,000
05/01/23 - 05/31/23	305,888	50.20	305,888	75,000,000
06/01/23 - 06/30/23	—	—	—	75,000,000
	609,017	$ 52.75	609,017	

On January 26, 2023, the Company entered into a $150 million accelerated share repurchase ("2023 ASR") and received 2.1 million shares of the Company common stock at inception of the 2023 ASR, which represented approximately 80% of the expected total shares under the 2023 ASR. The settlement of the ASR agreement was completed in two separate transactions on April 26, 2023 and May 4, 2023, where the Company received an additional 0.30 million and 0.31 million shares respectively, determined using the volume-weighted average price of the Company's common stock during the term of the 2023 ASR.

See *Note 11*, *Treasury Stock*, to the Notes to Unaudited Condensed Consolidated Financial Statements (Part I, Item 1 of this Quarterly Report) for additional information regarding our share repurchase program and the 2023 ASR.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Rule 10b5-1 Trading Plans

During the quarter ended June 30, 2023, none of the Company’s directors or executive officers adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any “non-Rule 10b5-1 trading arrangement.”

ITEM 6. EXHIBITS

Exhibits	
3.1(a)	Amended and Restated Certificate of Incorporation of the Company dated February 16, 1993 (Incorporated by reference to Exhibit 3.1(a) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005)
3.1(b)	Certificate of Amendment to Amended and Restated Certificate of Incorporation of the Company dated May 22, 1998 (Incorporated by reference to Exhibit 3.1(b) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998)
3.1(c)	Certificate of Amendment to Amended and Restated Certificate of Incorporation of the Company dated May 17, 1999 (Incorporated by reference to Exhibit 3.1(c) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004)
3.1(d)	Certificate of Amendment to Amended and Restated Certificate of Incorporation of the Company dated December 21, 2016 (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on December 22, 2016)
3.2	Second Amended and Restated Bylaws of Integra LifeSciences Holdings Corporation, effective as of December 11, 2018 (Incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-k filed on December 12, 2018)
3.3	Third Amended and Restated Bylaws of Integra LifeSciences Holdings Corporation, effective as of February 21, 2023 (Incorporated by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022 filed on February 22, 2023)
*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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith

\# Indicates a management contract or compensatory plan or arrangement.

† The financial information of Integra LifeSciences Holdings Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2023 filed on July 27, 2023 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.

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:	July 27, 2023	/s/ Jan De Witte
		Jan De Witte President and Chief Executive Officer (Principal Executive Officer)
Date:	July 27, 2023	/s/ Lea Knight
		Lea Knight Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Date:	July 27, 2023	/s/ Jeffrey A. Mosebrook
		Jeffrey A. Mosebrook Senior Vice President, Finance (Principal Accounting Officer)

Exhibit 31.1

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

I, Jan De Witte, 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 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: July 27, 2023

/s/ Jan De Witte
Jan De Witte
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, Lea Knight, 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 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: July 27, 2023

/s/ Lea Knight
Lea Knight
Executive 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

In connection with the Quarterly Report of Integra LifeSciences Holdings Corporation (the “Company”) on Form 10-Q for the quarter ended June 30, 2023 as filed with the Securities Exchange Commission on the date hereof (the “Report”), I, Jan De Witte, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. 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:	July 27, 2023	/s/ Jan De Witte
		Jan De Witte
		President and Chief Executive Officer

Exhibit 32.2

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

In connection with the Quarterly Report of Integra LifeSciences Holdings Corporation (the “Company”) on Form 10-Q for the quarter ended June 30, 2023 as filed with the Securities Exchange Commission on the date hereof (the “Report”), I, Lea Knight, Executive Vice President and Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. 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: July 27, 2023

/s/ Lea Knight
Lea Knight
Executive Vice President and Chief Financial Officer