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 March 31, 2020
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. 0-26224

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

Delaware	**51-0317849**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	**(I.R.S. EMPLOYER IDENTIFICATION NO.)**
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 Act). Yes ☐ No ☒

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

The number of shares of the registrant's Common Stock, $0.01 par value, outstanding as of May 5, 2020 was 84,843,053.

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 / (LOSS)
(UNAUDITED)
(In thousands, except per share amounts)

	Three Months Ended March 31,	
	2020	**2019**
Total revenue, net	$ 354,324	$ 359,690
Costs and expenses:		
Cost of goods sold	133,476	128,912
Research and development	20,816	18,321
Selling, general and administrative	165,952	174,870
Intangible asset amortization	6,977	5,279
Total costs and expenses	327,221	327,382
Operating income	27,103	32,308
Interest income	2,570	2,428
Interest expense	(17,752)	(13,149)
Other income(expense), net	(479)	3,236
Income before income taxes	11,442	24,823
Provision (benefit) for income taxes	2,262	(7,933)
Net income	$ 9,180	$ 32,756
Net income per share		
Basic	$ 0.11	$ 0.38
Diluted	$ 0.11	$ 0.38
Weighted average common shares outstanding (See Note 13):		
Basic	85,188	85,343
Diluted	85,892	86,258
Comprehensive income (loss) (See Note 14)	$ (19,007)	$ 21,520

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

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

	March 31, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 357,712	$ 198,911
Trade accounts receivable, net of allowances of $6,652 and $4,303	245,546	275,296
Inventories, net	338,082	316,054
Prepaid expenses and other current assets	67,332	67,907
Total current assets	1,008,672	858,168
Property, plant and equipment, net	335,903	337,404
Right of use asset - operating leases	95,890	94,530
Intangible assets, net	1,014,227	1,031,591
Goodwill	951,554	954,280
Deferred tax assets, net	2,330	12,623
Other assets	38,989	14,644
Total assets	$ 3,447,565	$ 3,303,240
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of borrowings under senior credit facility	$ —	$ 45,000
Current portion of lease liability - operating leases	12,964	12,253
Accounts payable, trade	97,061	113,090
Contract liabilities	4,860	4,772
Accrued compensation	55,630	79,385
Accrued expenses and other current liabilities	75,970	76,809
Total current liabilities	246,485	331,309
Long-term borrowings under senior credit facility	1,018,032	1,198,561
Long-term borrowings under securitization facility	98,500	104,500
Long-term convertible securities	460,159	—
Lease liability - operating leases	100,328	97,504
Deferred tax liabilities	24,221	36,553
Other liabilities	158,037	118,077
Total liabilities	2,105,762	1,886,504
Commitments and contingencies (Refer to Note 16)		
Stockholders' equity:		
Preferred stock; no par value; 15,000 authorized shares; none outstanding	—	—
Common stock; $0.01 par value; 240,000 authorized shares; 89,104 and 88,735 issued at March 31, 2020 and December 31, 2019, respectively	889	887
Additional paid-in capital	1,240,455	1,213,620
Treasury stock, at cost; 4,294 shares and 2,865 shares at March 31, 2020 and December 31, 2019, respectively	(202,506)	(119,943)
Accumulated other comprehensive loss	(104,588)	(76,402)
Retained earnings	407,553	398,574
Total stockholders' equity	1,341,803	1,416,736
Total liabilities and stockholders' equity	$ 3,447,565	$ 3,303,240

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

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

	Three Months Ended March 31,	
	2020	**2019**
OPERATING ACTIVITIES:		
Net income	$ 9,180	$ 32,756
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,151	27,093
Deferred income tax benefit/provision	5,068	(6,843)
Share-based compensation	3,750	4,083
Amortization of debt issuance costs and expenses associated with debt refinancing	4,246	1,357
Accretion of bond issuance discount	2,529	—
Loss on disposal of property and equipment	374	367
Change in fair value of contingent consideration and others	(1,051)	194
Changes in assets and liabilities:		
Accounts receivable	28,301	(13,705)
Inventories	(26,236)	(12,048)
Prepaid expenses and other current assets	4,683	(12,949)
Other non-current assets	3,000	(628)
Accounts payable, accrued expenses and other current liabilities	(40,235)	5,387
Contract liabilities	338	(188)
Other non-current liabilities	(2,284)	4,608
Net cash provided by operating activities	20,814	29,484
INVESTING ACTIVITIES:		
Purchases of property and equipment	(16,519)	(16,086)
Acquired in-process research and development	(5,000)	—
Proceeds from note receivable	—	245
Proceeds from sale of property and equipment	34	35
Net cash used in investing activities	(21,485)	(15,806)
FINANCING ACTIVITIES:		
Proceeds from borrowings of long-term indebtedness	113,200	67,200
Payments on debt	(344,200)	(57,400)
Purchase of option hedge on convertible notes	(104,248)	—
Proceeds from convertible notes issuance	575,000	—
Proceeds from sale of stock purchase warrants	44,562	—
Payment of debt issuance costs	(20,264)	—
Purchases of treasury stock	(100,000)	—
Proceeds from exercised stock options	2,303	1,750
Cash taxes paid in net equity settlement	(4,348)	(6,157)
Net cash provided by financing activities	162,005	5,393
Effect of exchange rate changes on cash and cash equivalents	(2,533)	(884)
Net increase in cash and cash equivalents	158,801	18,187
Cash and cash equivalents at beginning of period	198,911	138,838
Cash and cash equivalents at end of period	$ 357,712	$ 157,025

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

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

	Three Months Ended March 31, 2020							
	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Equity
	Shares	Amount	Shares	Amount				
	(In thousands)							
Balance, January 1, 2020	88,735	$ 887	(2,865)	$ (119,943)	$ 1,213,620	$ (76,401)	$ 398,573	$ 1,416,736
Net income	—	—	—	—	—	—	9,180	9,180
Other comprehensive loss, net of tax	—	—	—	—	—	(28,187)	—	(28,187)
Issuance of common stock through employee stock purchase plan	13	—	—	—	694	—	—	694
Issuance of common stock for vesting of share based awards, net of shares withheld for taxes	357	2	10	476	(3,217)	—	—	(2,739)
Share-based compensation		—	—	—	3,781	—	—	3,781
Share repurchase and equity component of the convertible note issuance, net	—	—	(135)	(7,632)	42,538	—	—	34,906
Accelerated shares repurchased	—	—	(1,304)	(75,407)	(16,961)	—	—	(92,368)
Adoption of Update No. 2016-13	—	—	—	—	—	—	(200)	(200)
Balance, March 31, 2020	89,105	$ 889	(4,294)	$ (202,506)	$ 1,240,455	$ (104,588)	$ 407,553	$ 1,341,803

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

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

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

1. BASIS OF PRESENTATION

General

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

In the opinion of management, the March 31, 2020 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 shareholder's 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 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, 2019 included in the Company’s Annual Report on Form 10-K. The December 31, 2019 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. Operating results for the three month period ended March 31, 2020 are not necessarily indicative of the results to be expected for the entire year.

The preparation of consolidated financial statements is in conformity with generally accepted accounting principles in the United States ("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 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 the equity component of convertible debt 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. The novel coronavirus (“COVID-19”) pandemic and the resulting adverse impacts to global economic conditions, as well as our operations, may impact future estimates including, but not limited to, inventory valuations, fair value measurements, goodwill and long-lived asset impairments, the effectiveness of the Company’s hedging instruments, deferred tax valuation allowances, and allowances for doubtful accounts receivable.

Risks and Uncertainties

The Company is subject to risks and uncertainties as a result of the COVID-19 pandemic. The extent of the impact of the COVID-19 pandemic on the Company's business is highly uncertain and difficult to predict, as the response to the pandemic is in its incipient stages and information is rapidly evolving. The Company's customers are diverting resources to treat COVID-19 patients and deferring elective surgical procedures, both of which are likely to impact hospitals' abilities to meet their obligations, including to the Company. Furthermore, capital markets and economies worldwide have also been negatively impacted by the COVID-19 pandemic, and it is likely that it could cause a local and/or global economic recession. Such economic disruption has had an adverse effect on our business as hospitals curtail and reduce capital and overall spending. Policymakers around the globe have responded with fiscal policy actions to support the healthcare industry and economy as a whole. The magnitude and overall effectiveness of these actions remains uncertain.The severity of the impact of the COVID-19 pandemic on the Company's business will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the Company's customers, all of which are uncertain and cannot be predicted with certainty. The Company's future results of operations and liquidity could be adversely impacted by delays in payments of outstanding receivable amounts beyond normal payment terms, supply chain disruptions and uncertain demand, and the impact of any initiatives or programs that the Company may undertake to address financial and operations challenges faced by its customers. The Company has implemented contingency plans to address the operational impact of COVID-19 and ensure ongoing operations.

Recently Issued Accounting Standards

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)*: *Measurement of Credit Losses on Financial Instruments.* The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets including trade receivables held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other

organizations will now use forward-looking information to better inform their credit loss estimates. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company adopted this guidance on January 1, 2020 using a modified retrospective transition method which requires a cumulative-effect adjustment to the opening balance of retained earnings to be recognized on the date of adoption with no change to financial results reported in prior periods. The cumulative-effect adjustment recorded on January 1, 2020, is not material. The adoption of this ASU did not have a significant impact on the Company's consolidated financial statements and related disclosures.

The Company's exposure to credit losses may increase if its customers are adversely affected by changes in healthcare laws, coverage, and reimbursement, economic pressures or uncertainty associated with local or global economic recessions, disruption associated with the current COVID-19 pandemic, or other customer-specific factors. Although the Company has historically not experienced significant credit losses, it is possible that there could be a adverse impact from potential as hospital's cash flows are impacted by their response to the COVID-19 pandemic and deferral of elective surgical procedures.

In August 2018, the FASB issued ASU 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans.* The new guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans, including removing certain previous disclosure requirements, adding certain new disclosure requirements, and clarifying certain other disclosure requirements. The ASU will be effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted. The adoption is not expected to have a material impact on the Condensed and Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)*, relating to a customer's accounting for implementation, set-up, and other upfront costs incurred in a cloud computing arrangement that is hosted by a vendor (e.g., a service contract). Under the new guidance, a customer will apply the same criteria for capitalizing implementation costs as it would for an arrangement that has a software license. The new guidance also prescribes the balance sheet, income statement, and cash flow classification of the capitalized implementation costs and related amortization expense, and requires additional quantitative and qualitative disclosures. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company adopted this guidance on January 1, 2020 using a prospective transition method. The adoption of this guidance did not have a significant impact on the Company's consolidated financial statements and related disclosures.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes: Simplifying the Accounting for Income Taxes* intended to simplify the accounting for income taxes by eliminating certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The standard is effective for annual periods beginning after December 15, 2020 and interim periods within, with early adoption permitted. Adoption of the standard requires certain changes to be made prospectively, with some changes to be made retrospectively. The Company is currently assessing the impact of this standard on the financial condition and results of operations.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform*, which provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. This amendment applies to all entities, subject to meeting certain criteria, that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. This ASU is effective immediately and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. The Company is currently assessing the impact that this ASU will have on its consolidated financial statements.

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

2. BUSINESS DEVELOPMENT

Arkis BioSciences Inc.

On July 29, 2019, the Company acquired Arkis BioSciences Inc. ("Arkis") for an acquisition purchase price of $30.9 million (the "Arkis Acquisition") plus contingent consideration of up to $25.5 million, that may be payable based on the successful completion of certain development and commercial milestones. The contingent consideration had an acquisition date fair value of $13.1 million. Arkis was a privately-held company that marketed the CerebroFlo® external ventricular drainage (EVD) catheter with Endexo® technology, a permanent additive designed to reduce the potential for catheter obstruction due to thrombus formation.

Assets Acquired and Liabilities Assumed at Fair Value

The Arkis 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. As of March 31, 2020 certain amounts relating to tax related matters have not been finalized. The finalization of these matters could result in changes to goodwill.

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

	Preliminary Valuation as of March 31, 2020	Weighted Average Life
	(Dollars in thousands)	
Cash	$ 90	
Other current assets	751	
Property, plant and equipment	159	
Deferred tax assets	1,535	
Intangible assets:		
CerebroFlo developed technology	20,100	15 years
Enabling technology license	1,980	14 years
Goodwill	27,600	
Total assets acquired	52,215	
Accounts payable, accrued expenses and other liabilities	2,926	
Contingent consideration	13,100	
Deferred tax liabilities	5,305	
Net assets acquired	**$ 30,884**	

Intangible Assets

The estimated fair value of the intangible assets was determined using the income approach, which is a valuation technique that provides an estimate of the fair value of an asset based on market participant expectations of the cash flows an asset would generate over its remaining useful life. 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 asset (including net revenues, cost of sales, R&D costs, selling and marketing costs, and working capital/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 each asset’s life cycle, and competitive trends impacting the asset and each cash flow stream.

The Company used a discount rate of 14.5% 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 Arkis Acquisition to the Codman Specialty Surgical 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. One of the key factors that contributes to the recognition of goodwill, and a driver for the Company's acquisition of Arkis, is the planned expansion of the Endexo technology with the existing products within the Codman Specialty Surgical segment. 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 resultant probability-weighted cash flows 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 Company's consolidated statement of operations. Changes in the fair value of the contingent consideration obligations may result from changes in discount periods and rates, changes in the timing and amount of revenue estimates and changes in probability assumptions with respect to the likelihood of achieving the various contingent payment obligations.

Adverse 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 acquisition, 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 March 31, 2020 was $13.2 million. This amount is included in other liabilities at March 31, 2020 in the consolidated balance sheets 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.

The pro forma results are not presented for this acquisition as they are not material.

Rebound Therapeutics Corporation

On September 9, 2019, the Company acquired Rebound Therapeutics Corporation ("Rebound"), developers of a single-use medical device known as the AURORA Surgiscope® System ("Aurora") which enables minimally invasive access, using optics and illumination, for visualization, diagnostic and therapeutic use in neurosurgery (the "Rebound transaction"). Under the terms of the Rebound transaction, the Company made an upfront payment of $67.1 million and are committed to pay up to $35.0 million of contingent development milestones upon achievement of certain regulatory milestones. The acquisition of Rebound was primarily concentrated in one single identifiable asset and thus, for accounting purposes, the Company has concluded that the acquired assets do not meet the accounting definition of a business. The initial payment was allocated primarily to Aurora, resulting in a $59.9 million in-process research and development expense. The balance of approximately $7.2 million, which included $2.1 million of cash and cash equivalents and a net deferred tax asset of $4.2 million, was allocated to the remaining net assets acquired. The deferred tax asset primarily resulted from a federal net operating loss carry forward.

During the fourth quarter of 2019, the Company achieved the first developmental milestone which triggered a $5.0 million obligation to be paid to former shareholders of Rebound. The Company recorded $5.0 million as in-process research and development expense in the consolidated statements of operations during the year ended December 31, 2019. The obligation was included in accrued expenses and other current liabilities at December 31, 2019 in the consolidated balance sheets. The milestone was paid during the first quarter of 2020.

Integrated Shoulder Collaboration, Inc.

On January 4, 2019, the Company entered into a licensing agreement with Integrated Shoulder Collaboration, Inc ("ISC"). Under the terms of the agreement, the Company paid ISC $1.7 million for the exclusive, worldwide license to commercialize its short stem and stemless shoulder system. A patent related to short stem and stemless shoulder systems was issued to ISC during the first quarter of 2019. ISC is eligible to receive royalties on sales of the short stem and stemless shoulder system. The Company has the option to acquire ISC at a date four years subsequent to the first commercial sale, which becomes mandatory upon the achievement of a certain sales thresholds of the short stem and stemless shoulder system, for an amount not to exceed $80.0 million. The transaction was accounted for as an asset acquisition as the Company concluded that it acquired primarily one asset. During the quarter ended March 31, 2019, The total upfront payment of $1.7 million was expensed as a component of research and development expense and the future milestone and option payments will be recorded if the corresponding events become probable.

3. REVENUES FROM CONTRACTS WITH CUSTOMERS

Summary of Accounting Policies on Revenue Recognition

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

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

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

measure the manufacturing activities completed to date, which depicts the progress of the Company's performance obligation of transferring control of goods being manufactured for private label customers.

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

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

Performance Obligations

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

Significant Judgments

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

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

The Company's return policy, as set forth in its product catalogs and sales invoices, requires 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 ninety days.

The Company disregards the effects of a financing component if the Company expects, at contract inception, that the period between the transfer and customer payment for the 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 sheet.

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

The following table summarizes the changes in the contract asset and liability balances for the three months ended March 31, 2020:

Contract Asset		
Contract asset, January 1, 2020	$	8,680
Transferred to trade receivable of contract asset included in beginning of the year contract asset		(8,680)
Contract asset, net of transferred to trade receivables on contracts during the period		7,944
Contract asset, March 31, 2020	$	7,944

Contract Liability		
Contract liability, January 1, 2020	$	11,946
Recognition of revenue included in beginning of year contract liability		(1,291)
Contract liability, net of revenue recognized on contracts during the period		1,691
Foreign currency translation		(147)
Contract liability, March 31, 2020	$	12,199

At March 31, 2020, the short-term portion of the contract liability of $4.9 million and the long-term portion of $7.3 million were included in accrued expenses and other current liabilities and other liabilities in the consolidated balance sheet.

As of March 31, 2020, the Company is expected to recognize approximately 40% of unsatisfied (or partially unsatisfied) performance obligations as revenue through 2020, with the remaining balance to be recognized in 2021 and thereafter.

Shipping and Handling Fees

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

Product Warranties

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

Taxes Collected from Customers

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

Disaggregated Revenue

The following table presents revenues disaggregated by the major sources of revenues for the three months ended March 31, 2020 and 2019 (amounts in thousands):

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
	(amounts in thousands)	
Neurosurgery	$ 184,943	$ 179,520
Instruments	46,497	55,048
Total Codman Specialty Surgical	231,440	234,568
Wound Reconstruction and Care	72,267	74,963
Extremity Orthopedics	21,472	22,685
Private Label	29,145	27,474
Total Orthopedics and Tissue Technologies	122,884	125,122
Total revenue	$ 354,324	$ 359,690

Prior period amounts were reclassified between categories within the Codman Specialty Surgical segment to conform to the current period presentation.

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

4. INVENTORIES

Inventories, net consisted of the following:

	March 31, 2020	December 31, 2019
	(In thousands)	
Finished goods	$ 217,078	$ 201,870
Work in process	53,624	48,333
Raw materials	67,380	65,851
Total inventories	$ 338,082	$ 316,054

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Changes in the carrying amount of goodwill for the three-month period ended March 31, 2020 were as follows:

	Codman Specialty Surgical	Orthopedics and Tissue Technologies	Total
	(In thousands)		
Goodwill at December 31, 2019	$ 653,500	$ 300,780	$ 954,280
Foreign currency translation	(1,867)	(859)	(2,726)
Goodwill at March 31, 2020	$ 651,633	$ 299,921	$ 951,554

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

		March 31, 2020		
	Weighted Average Life	Cost	Accumulated Amortization	Net
		(Dollars in thousands)		
Completed technology	19 years	$ 881,856	$ (225,350)	$ 656,506
Customer relationships	12 years	221,193	(123,896)	97,297
Trademarks/brand names	28 years	103,472	(29,190)	74,282
Codman tradename	Indefinite	163,680	—	163,680
Supplier relationships	27 years	34,721	(18,304)	16,417
All other[1]	4 years	10,787	(4,742)	6,045
		$ 1,415,709	$ (401,482)	$ 1,014,227

	December 31, 2019			
	Weighted Average Life	Cost	Accumulated Amortization	Net
		(Dollars in thousands)		
Completed technology	19 years	$ 880,623	$ (213,702)	$ 666,921
Customer relationships	12 years	222,575	(119,393)	103,182
Trademarks/brand names	28 years	103,873	(28,514)	75,359
Codman tradename	Indefinite	163,126	—	163,126
Supplier relationships	27 years	34,721	(17,947)	16,774
All other [1]	4 years	10,869	(4,640)	6,229
		$ 1,415,787	$ (384,196)	$ 1,031,591

(1) At March 31, 2020 and December 31, 2019, all other included IPR&D of $1.0 million, which was indefinite-lived.

Based on quarter-end exchange rates, amortization expense (including amounts reported in cost of product revenues) is expected to be approximately $56.1 million for the remainder of 2020, $64.4 million in 2021, $60.8 million in 2022, $60.0 million in 2023, $59.2 million in 2024, $59.1 million in 2025 and $491.9 million thereafter.

6. DEBT

Sixth Amended and Restated Senior Credit Agreement

On February 3, 2020, the Company entered into the sixth amendment and restatement (the "February 2020 Amendment") of its Senior Credit Facility (the "Senior Credit Facility") with a syndicate of lending banks with Bank of America, N.A., as Administrative Agent. The February 2020 Amendment extended the maturity date to February 3, 2025. The Company continues to have the aggregate principal amount of up to approximately $2.2 billion available to it through the following facilities: (i) a $877.5 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 first mandatory repayment under the Term Loan portion of the February 2020 Amendment is due June 30, 2021.

In connection with the February 2020 Amendment, the Company’s maximum consolidated total leverage ratio in the financial covenants (as defined in the Senior Credit Facility) was modified to the following:

Fiscal Quarter	Maximum Consolidated Total Leverage Ratio
First fiscal quarter ending after the Closing Date through June 30, 2022	5.00 to 1.00
September 30, 2022 through June 30, 2023	4.50 to 1.00
September 30, 2023 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. the Eurodollar Rate (as defined in the amendment and restatement) in effect from time to time plus the applicable rate (ranging from 1.00% to 1.75%), or

ii. the highest of:

1. the weighted average overnight Federal funds rate, as published by the Federal Reserve Bank of New York, plus 0.50%
2. the prime lending rate of Bank of America, N.A. or
3. the one-month Eurodollar Rate 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 (b) consolidated EBITDA as defined by the February 2020 amendment, 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 March 31, 2020, the Company was in compliance with all such covenants. The Company capitalized $4.6 million of financing costs in connection with modification of the Senior Credit Facility and wrote off $1.2 million of previously capitalized financing costs during the first quarter of 2020.

At March 31, 2020 and December 31, 2019, there was $150.0 million and $375.0 million outstanding, respectively, under the revolving credit component of the Senior Credit Facility at weighted average interest rates of 2.5% and 3.2%, respectively. At March 31, 2020 and December 31, 2019, there was $877.5 million outstanding, respectively, under the Term Loan component of the Senior Credit Facility at a weighted average interest rate of 2.4% and 3.2%, respectively. At March 31, 2020, there is no current portion of the Term Loan component of the Senior Credit Facility as the first mandatory repayment is due June 30, 2021.

Convertible Senior Notes

On February 4, 2020, the Company issued $575.0 million aggregate principal amount of its of 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 Notes. The portion of debt proceeds that was classified as equity at the time of the offering was $104.5 million, and that amount is being amortized to interest expense using the effective interest method through August 2025. The effective interest rate implicit in the liability component is 4.2%. In connection with this offering, the Company capitalized $13.2 million of financing fees. At March 31, 2020, the carrying amount of the liability component was $473.0 million, the remaining unamortized discount was $102.0 million, and the principal amount outstanding was $575.0 million. The fair value of the 2025 Notes at March 31, 2020 was $507.7 million.

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 $1000 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) at any time on or after February 20, 2023; or (4) if specified corporate transactions occur. As of March 31, 2020, none of these conditions existed with respect to the 2025 Notes and as a result the 2025 Notes are classified as long term.

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.

During the three months ended March 31, 2020, the Company recognized cash interest of $0.4 million and amortization of the discount on the liability component of $2.5 million for a total interest charge of $2.9 million on the 2020 Notes.

Securitization Facility

During the fourth quarter of 2018, the Company entered into an accounts receivable securitization facility (the "Securitization Facility") under which accounts receivable of certain domestic subsidiaries are sold on a non-recourse basis to a special purpose entity ("SPE"), which is a bankruptcy-remote, consolidated subsidiary of the Company. Accordingly, the assets of the SPE are not available to satisfy the obligations of the Company or any of its subsidiaries. From time to time, the SPE may finance such accounts receivable with a revolving loan facility secured by a pledge of such accounts receivable. The amount of outstanding borrowings on the Securitization Facility at any one time is limited to $150.0 million. The Securitization Facility Agreement ("Securitization Agreement") is for an initial three-year term and may be extended. The 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 March 31, 2020, the Company was in compliance with the covenants and none of the termination events had occurred. At

March 31, 2020 and December 31, 2019, the Company had $98.5 million and $104.5 million, respectively, of outstanding borrowings under its Securitization Facility at a weighted average interest rate of 2.6% and 2.8%, respectively.

The fair value of outstanding borrowings of the Senior Credit Facility's revolving credit and Term Loan components at March 31, 2020 were $130.4 million and, $771.3 million, respectively. The fair value of the outstanding borrowing of the Securitization Facility at March 31, 2020 was $94.5 million. These fair values were determined by using a discounted cash flow model based on current market interest rates available to the Company. These inputs are corroborated by observable market data for similar liabilities and therefore classified within Level 2 of the fair value hierarchy. Level 2 inputs represent inputs that are observable for the asset or liability, either directly or indirectly, and are other than active market observable inputs that reflect unadjusted quoted prices for identical assets or liabilities.

Letters of credit outstanding as of March 31, 2020 and December 31, 2019 totaled $0.8 million. There were no amounts drawn as of March 31, 2020.

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

Quarter Ended March 31, 2020	Principal Repayment (In thousands)
Remainder of 2020	$ —
2021	33,750
2022	45,000
2023	61,875
2024	67,500
2025	669,375
	$ 877,500

The outstanding balance of the revolving credit component of the Senior Credit Facility is due on February 3, 2025.

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 LIBOR-indexed floating-rate borrowings.

The Company held the following interest rate swaps as of March 31, 2020 (dollar amounts in thousands):

Hedged Item	Current Notional Amount	Designation Date	Effective Date	Termination Date	Fixed Interest Rate	Estimated Fair Value
						Liabilities
3-month USD LIBOR Loan	50,000	February 6, 2017	June 30, 2017	June 30, 2020	1.834%	$ (48)
1-month USD LIBOR Loan	100,000	February 6, 2017	June 30, 2017	June 30, 2020	1.652%	(233)
1-month USD LIBOR Loan	100,000	March 27, 2017	December 31, 2017	June 30, 2021	1.971%	(2,024)
1-month USD LIBOR Loan	150,000	December 13, 2017	January 1, 2018	December 31, 2022	2.201%	(7,467)
1-month USD LIBOR Loan	150,000	December 13, 2017	January 1, 2018	December 31, 2022	2.201%	(7,388)
1-month USD LIBOR Loan	100,000	December 13, 2017	July 1, 2019	June 30, 2024	2.423%	(8,475)
1-month USD LIBOR Loan	50,000	December 13, 2017	July 1, 2019	June 30, 2024	2.423%	(3,994)
1-month USD LIBOR Loan	200,000	December 13, 2017	January 1, 2018	December 31, 2024	2.313%	(16,279)
1-month USD LIBOR Loan	75,000	October 10, 2018	July 1, 2020	June 30, 2025	3.220%	(10,186)
1-month USD LIBOR Loan	75,000	October 10, 2018	July 1, 2020	June 30, 2025	3.199%	(10,165)
1-month USD LIBOR Loan	75,000	October 10, 2018	July 1, 2020	June 30, 2025	3.209%	(10,185)
1-month USD LIBOR Loan	100,000	December 18, 2018	December 30, 2022	December 31, 2027	2.885%	(9,453)
1-month USD LIBOR Loan	100,000	December 18, 2018	December 30, 2022	December 31, 2027	2.867%	(9,855)
Total interest rate derivatives designated as cash flow hedge	$ 1,325,000					$ (95,752)

The Company held the following interest rate swaps as of December 31, 2019 (dollar amounts in thousands):

Hedged Item	Current Notional Amount	Designation Date	Effective Date	Termination Date	Fixed Interest Rate	Estimated Fair Value
						Liabilities
3-month USD LIBOR	50,000	February 6, 2017	June 30, 2017	June 30, 2020	1.834%	(2)
1-month USD LIBOR	100,000	February 6, 2017	June 30, 2017	June 30, 2020	1.652%	12
1-month USD LIBOR	100,000	March 27, 2017	December 31, 2017	June 30, 2021	1.971%	(581)
1-month USD LIBOR	150,000	December 13, 2017	January 1, 2018	December 31, 2022	2.201%	(2,880)
1-month USD LIBOR	150,000	December 13, 2017	January 1, 2018	December 31, 2022	2.201%	(2,880)
1-month USD LIBOR	100,000	December 13, 2017	July 1, 2019	June 30, 2024	2.423%	(3,517)
1-month USD LIBOR	50,000	December 13, 2017	July 1, 2019	June 30, 2024	2.423%	(1,778)
1-month USD LIBOR	200,000	December 13, 2017	January 1, 2018	December 31, 2024	2.313%	(6,595)
1-month USD LIBOR	75,000	October 10, 2018	July 1, 2020	June 30, 2025	3.220%	(5,750)
1-month USD LIBOR	75,000	October 10, 2018	July 1, 2020	June 30, 2025	3.199%	(5,747)
1-month USD LIBOR	75,000	October 10, 2018	July 1, 2020	June 30, 2025	3.209%	(5,807)
1-month USD LIBOR	100,000	December 18, 2018	December 30, 2022	December 31, 2027	2.885%	(4,930)
1-month USD LIBOR	100,000	December 18, 2018	December 30, 2022	December 31, 2027	2.867%	(4,691)
Total interest rate derivatives designated as cash flow hedge	$ 1,325,000					(45,145)

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 loss (“AOCL”), 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 AOCL 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 AOCL, net of tax, until the hedged item affects earnings. Once the related hedged item affects earnings, the Company reclassifies amounts recorded in AOCL to earnings. If the hedged forecasted transaction does not occur, or if it becomes probable that it will not occur, the Company will reclassify the amount of any gain or loss on the related cash flow hedge to earnings at that time. For contracts not designated as hedging instruments, the changes in fair value of the contracts are recognized in other income (expense), net in the consolidated statements of operation, along with the offsetting foreign currency gain or loss on the underlying assets or liabilities.

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

Cross-Currency Rate Swaps

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

The Company held the following cross-currency rate swaps as of March 31, 2020 (dollar amounts in thousands):

	Effective Date	Termination Date	Fixed Rate	Aggregate Notional Amount		March 31, 2020 Fair Value Asset (Liability)
Pay CHF	October 2, 2017	October 2, 2020	1.75%	CHF	32,355	$ (74)
Receive U.S.$			4.38%	$	33,333	
Pay CHF	October 2, 2017	October 2, 2021	1.85%	CHF	48,533	531
Receive U.S.$			4.46%	$	50,000	
Pay CHF	October 2, 2017	October 2, 2022	1.95%	CHF	145,597	3,416
Receive U.S.$			4.52%	$	150,000	
Total						$ 3,874

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

	Effective Date	Termination Date	Fixed Rate	Aggregate Notional Amount		December 31, 2019 Fair Value Asset (Liability)
Pay CHF	October 2, 2017	October 2, 2020	1.75%	CHF	32,355	$ (101)
Receive U.S.$			4.38%	$	33,333	
Pay CHF	October 2, 2017	October 2, 2021	1.85%	CHF	48,533	(119)
Receive U.S.$			4.46%	$	50,000	
Pay CHF	October 2, 2017	October 2, 2022	1.95%	CHF	145,598	(289)
Receive U.S.$			4.52%	$	150,000	
Total						$ (509)

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 AOCL. For the three months ended March 31, 2020 and 2019, the Company recorded a loss of $1.7 million and a gain of $3.3 million, respectively, in other income(expense), net related to change in fair value related to the foreign currency rate translation to offset the gains or losses recognized on the intercompany loan.

For the three months ended March 31, 2020 and 2019, the Company recorded gains of $5.9 million and $5.5 million, respectively, in AOCL related to change in fair value of the cross-currency swaps.

For the three months ended March 31, 2020 and 2019, the Company recorded gains of $1.5 million and $1.9 million, respectively, in other income (expense), net 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 other income (expense), net from AOCL as of March 31, 2020 within the next twelve months is $5.1 million. As of March 31, 2020, the Company does not expect any gains or losses will be reclassified into earnings as a result of the discontinuance of these cash flow hedges because the original forecasted transaction will not occur.

Net Investment Hedges

The Company manages certain foreign exchange risks through a variety of strategies, including hedging. The Company is exposed to foreign exchange risk 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, the Company entered into cross-currency swap agreements designated as net investment hedges to partially offset the effects of foreign currency on foreign subsidiaries.

The Company held the following cross-currency rate swaps designated as net investment hedges as of March 31, 2020 and December 31, 2019, respectively (dollar amounts in thousands):

				March 31, 2020	
	Effective Date	Termination Date	Fixed Rate	Aggregate Notional Amount	Fair Value Asset (Liability)
Pay EUR Receive U.S.$	October 3, 2018	September 30, 2021	—% 3.01%	EUR 44,859 $ 52,000	$ 4,082
Pay EUR Receive U.S.$	October 3, 2018	September 30, 2023	—% 2.57%	EUR 51,760 $ 60,000	6,298
Pay EUR Receive U.S.$	October 3, 2018	September 30, 2025	—% 2.19%	EUR 38,820 $ 45,000	5,174
Pay GBP Receive U.S.$	October 3, 2018	September 30, 2025	1.67% 2.71%	GBP 128,284 $ 167,500	16,773
Pay CHF Receive GBP	October 3, 2018	September 30, 2025	—% 1.67%	CHF 165,172 GBP 128,284	(6,965)
Total					$ 25,362

				December 31, 2019	
	Effective Date	Termination Date	Fixed Rate	Aggregate Notional Amount	Fair Value Asset (Liability)
Pay EUR Receive U.S.$	October 3, 2018	September 30, 2021	—% 3.01%	EUR 44,859 $ 52,000	$ 2,459
Pay EUR Receive U.S.$	October 3, 2018	September 30, 2023	—% 2.57%	EUR 51,760 $ 60,000	3,087
Pay EUR Receive U.S.$	October 3, 2018	September 30, 2025	—% 2.19%	EUR 38,820 $ 45,000	2,032
Pay GBP Receive U.S.$	October 3, 2018	September 30, 2025	1.67% 2.71%	GBP 128,284 $ 167,500	(154)
Pay CHF Receive GBP	October 3, 2018	September 30, 2025	—% 1.67%	CHF 165,172 GBP 128,284	1,221
Total					$ 8,645

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 AOCL. For the three months ended March 31, 2020 and 2019, the Company recorded gains of $16.7 million and $7.9 million in AOCL related to the change in fair value of the cross-currency swaps.

For the three months ended March 31, 2020 and 2019, the Company recorded gains of $2.2 million and $2.3 million in interest income included in the consolidated statements of operations related to the interest rate differential of the cross-currency swaps.

The estimated gain that is expected to be reclassified to interest income from AOCL as of March 31, 2020 within the next twelve months is $8.2 million.

Counterparty Credit Risk

The Company manages its concentration of counterparty credit risk on its derivative instruments by limiting acceptable counterparties to a group of major financial institutions with investment grade credit ratings, and by actively monitoring their credit ratings and outstanding positions on an ongoing basis. Therefore, the Company considers the credit risk of the counterparties

to be low. Furthermore, none of the Company's derivative transactions are subject to collateral or other security arrangements, and none contain provisions that depend upon the Company's credit ratings from any credit rating agency.

Fair Value of Derivative Instruments

The Company has classified all of its derivative instruments within Level 2 of the fair value hierarchy because observable inputs are available for substantially the full 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 March 31, 2020 and December 31, 2019:

	Fair Value as of	
Location on Balance Sheet [1]:	**March 31, 2020**	**December 31, 2019**
	(In thousands)	
Derivatives designated as hedges — Assets:		
Prepaid expenses and other current assets		
Cash Flow Hedges		
Interest rate swap[2]	$ —	$ 12
Cross-currency swap	5,065	5,032
Net Investment Hedges		
Cross-currency swap	8,164	7,952
Other assets		
Cash Flow Hedges		
Interest rate swap[2]	—	—
Cross-currency swap	—	—
Net Investment Hedges		
Cross-currency swap	26,307	3,465
Total derivatives designated as hedges — Assets	$ 39,536	$ 16,461
Derivatives designated as hedges — Liabilities:		
Accrued expenses and other current liabilities		
Cash Flow Hedges		
Interest rate swap[2]	$ 19,793	$ 6,635
Cross-currency swap	74	101
Other liabilities		
Cash Flow Hedges		
Interest rate swap[2]	75,959	38,522
Cross-currency swap	1,117	5,440
Net Investment Hedges		
Cross-currency swap	9,109	2,772
Total derivatives designated as hedges — Liabilities	$ 106,052	$ 53,470

(1) The Company classifies derivative assets and liabilities as non-current based on the cash flows expected to be incurred within the following 12 months.
(2) At March 31, 2020 and December 31, 2019, the notional amount related to the Company's interest rate swaps were $1.3 billion and $1.3 billion, respectively.

The following presents the effect of derivative instruments designated as cash flow hedges on the accompanying condensed consolidated statement of operations during the three months ended March 31, 2020 and 2019:

	Balance in AOCL Beginning of Quarter	Amount of Gain (Loss) Recognized in AOCL	Amount of Gain (Loss) Reclassified from AOCL into Earnings	Balance in AOCL End of Quarter	Location in Statements of Operations
	(In thousands)				
Three Months Ended March 31, 2020					
Cash Flow Hedges					
Interest rate swap	$ (45,145)	$ (51,651)	$ (1,043)	$ (95,753)	Interest expense
Cross-currency swap	177	5,907	(182)	6,266	Other income (expense), net
Net Investment Hedges					
Cross-currency swap	10,229	18,897	2,180	26,946	Interest income
	$ (34,739)	$ (26,847)	$ 955	$ (62,541)	
Three Months Ended March 31, 2019					
Cash Flow Hedges					
Interest rate swap	$ 619	$ (15,891)	$ 1,406	$ (16,678)	Interest expense
Cross-currency swap	(6,190)	7,473	5,178	(3,895)	Other income (expense), net
Net Investment Hedges					
Cross-currency swap	(632)	10,221	2,327	7,262	Interest income
	$ (6,203)	$ 1,803	$ 8,911	$ (13,311)	

8. STOCK-BASED COMPENSATION

As of March 31, 2020, the Company had stock options, restricted stock awards, performance stock units, contract stock awards and restricted stock unit awards outstanding under two plans, the 2001 Equity Incentive Plan (the "2001 Plan") and the 2003 Equity Incentive Plan (the "2003 Plan," and collectively, the "Plans").

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

Stock Options

As of March 31, 2020, there were approximately $8.2 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 348,587 stock options granted during the three months ended March 31, 2020. For the three months ended March 31, 2020, the weighted average grant date fair value for stock options was $13.03 per option.

Awards of Restricted Stock and Performance Stock

Performance stock and restricted stock awards generally have requisite service periods of three years. Performance stock units are subject to graded vesting conditions 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 March 31, 2020, there was approximately $37.3 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 262,623 restricted stock awards and 180,875 performance stock awards during the three months ended March 31, 2020. For the three months ended March 31, 2020, the weighted average grant date fair value for restricted stock awards and performance stock units was $43.89 and $43.39 per award, respectively.

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

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

9. RETIREMENT PLANS

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

Net periodic benefit costs for the Company’s defined benefit pension plans for the three months ended March 31, 2020 were $1.0 million. The components of the net periodic benefit costs other than the service cost component of $0.9 million for the three months ended March 31, 2020, are included in other income (expense), net in the consolidated statements of operations.

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

The estimated fair values of plan assets were $31.3 million and $30.8 million as of March 31, 2020 and December 31, 2019, respectively. The net plan assets of the pension plans are invested in common trusts as of March 31, 2020 and December 31, 2019. 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

In May 2019, the Company adopted the Integra LifeSciences Deferred Compensation Plan (the “Plan”). Under the Plan, 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.

During the first quarter of 2020, employees participating in the Plan began to defer their compensation. This deferred compensation is invested in funds offered under the Plan and is valued based on Level 1 measurements in the fair value hierarchy. The purpose of the Plan is to retain key employees by providing them with an opportunity to defer a portion of their compensation as elected by the participant in accordance with the Plan. Any amounts set aside to defray the liabilities assumed by the Company will remain the general assets of the Company until such amounts are distributed to the participants. 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 at March 31, 2020 was $1.2 million. 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 March 31, 2020. 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 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 three months ended March 31, 2020 and March 31, 2019, was $4.8 million and $4.4 million respectively, which includes $0.1 million, in related party operating lease expense.

Supplemental balance sheet information related to operating leases at March 31, 2020 were as follows:

	March 31, 2020
	(In thousands, except lease term and discount rate)
ROU assets	$ 95,890
Current lease liabilities	$ 12,964
Non-current lease liabilities	100,328
Total lease liabilities	$ 113,292
Weighted average remaining lease term (in years):	
Leased facilities	12.5
Leased vehicles	1.7
Weighted average discount rate:	
Leased facilities	5.2%
Leased vehicles	2.4%

Supplemental cash flow information related to leases was as follows for the three months ended March 31, 2020 (in thousands):

	March 31, 2020
	(In thousands)
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 3,229
ROU assets obtained in exchange for lease liabilities:	
Operating leases	$ 5,808

Future minimum lease payments under operating leases at March 31, 2020 were as follows:

	Related Parties	Third Parties	Total
		(In thousands)	
2020	$ 222	$ 10,334	$ 10,556
2021	296	13,018	13,314
2022	296	14,198	14,494
2023	296	11,658	11,954
2024	296	11,022	11,318
Thereafter	1,429	91,026	92,455
Total minimum lease payments	$ 2,835	$ 151,256	$ 154,091
Less: Imputed interest			40,799
Total lease liabilities			113,292
Less: Current lease liabilities			12,964
Long-term lease liabilities			100,328

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

	Related Parties	Third Parties	Total
		(In thousands)	
2020	$ 296	$ 12,100	$ 12,396
2021	296	12,951	13,247
2022	296	13,753	14,049
2023	296	11,386	11,682
2024	296	11,060	11,356
Thereafter	1,428	91,235	92,663
Total minimum lease payments	$ 2,908	$ 152,485	$ 155,393
Less: Imputed interest			45,636
Total lease liabilities			109,757
Less: Current lease liabilities			12,253
Long-term lease liabilities			97,504

There were no future minimum lease payments under capital leases at December 31, 2019.

Related Party Leases

The Company leases its manufacturing facility in Plainsboro, New Jersey, from a general partnership that is 50% owned by a corporation whose shareholders are trusts, whose beneficiaries include family members of the Company's principal stockholder and former director. The term of the current lease agreement is through October 31, 2032 at an annual rate of approximately $0.3 million per year. The current lease agreement also provides (i) a 5-year renewal option for the Company to extend the lease from November 1, 2032 through October 31, 2037 at the fair market rental rate of the premises, and (ii) another 5-year renewal option to extend the lease from November 1, 2037 through October 31, 2042 at the fair market rental rate of the premises.

11. TREASURY STOCK

As of March 31, 2020 and December 31, 2019, there were 4.3 million and 2.9 million shares of treasury stock outstanding with a cost of $202.5 million and $119.9 million, at a weighted average cost per share of $47.17 and $41.87, respectively.

On December 11, 2018, the Board of Directors authorized the Company to repurchase up to $225.0 million of the Company's common stock. The program allows the Company to repurchase its shares opportunistically from time to time. The repurchase authorization expires in December 2020.

During the three months ended March 31, 2020, the Company repurchased 1.4 million shares of Integra's common stock as part of our existing share repurchase authorization. The Company utilized $100.0 million of net proceeds from the offering of the Convertible Senior Notes to execute the share repurchase transactions. This included $7.6 million from certain purchasers of the convertible notes in conjunction with the closing of the offering. On February 5, 2020, the Company entered into a
$92.4 million accelerated share repurchase ("ASR") to complete the remaining $100.0 million of share repurchase. The Company received 1.3 million shares at inception of the ASR, which represented approximately 80% of the expected total shares. The remaining 20% of the expected total shares is expected to settle during the second quarter of 2020, upon which additional shares of common stock may be delivered to the Company or, under certain circumstances, the Company may be required to make a cash payment or may elect to deliver shares of our common stock to the ASR counterparty. The total number of shares to be delivered or the amount of such payment, as well as the final average price per share, will be based on the volume-weighted average price, less a discount, of the Company's common stock during the term of the transaction.

The Company has $125.0 million remaining under the share repurchase of its Common Stock. 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.

12. INCOME TAXES

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

	Three Months Ended March 31,	
	2020	2019
Reported tax rate	19.8%	(32.0)%

The Company's effective income tax rates for the three months ended March 31, 2020 and 2019 were 19.8% and (32.0)%, respectively. For the three months ended March 31, 2020, the primary drivers of the higher tax rate were lower book income in lower-taxed jurisdictions and a $3.3 million valuation allowance on certain foreign deferred tax assets as the Company determined that it is no longer more likely than not that these foreign deferred tax assets would be realized due to the adverse impact of the COVID-19 pandemic in certain jurisdictions. For the three months ended March 31, 2019, the primary drivers of the lower rate were a $0.7 million higher tax benefit related to equity compensation and a tax benefit of $10.8 million ($0.13 per share) related to a federal tax holiday in Switzerland, which was finalized during the quarter ended March 31, 2019. The Company received a Switzerland federal tax credit of $12.0 million CHF, which can be used over a seven-year period, ending in 2024.

As of March 31, 2020, the Company has not provided deferred income taxes on unrepatriated earnings from foreign subsidiaries as they are deemed indefinitely reinvested. Such taxes would primarily be attributable to foreign withholding taxes and local income taxes when such earnings are distributed. As such, the Company has determined the tax impact of repatriating these earnings would not be material as of March 31, 2020. The company does not anticipate the need to repatriate earnings from foreign subsidiaries as a result of the impact of the COVID-19 pandemic.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. The CARES Act includes certain income tax provisions for corporations and individuals, among other provisions. The Company does not expect the CARES Act to have a significant impact on the tax provision for income.

13. NET INCOME PER SHARE

Basic and diluted net income per share was as follows:

	Three Months Ended March 31,	
	2020	2019
	(In thousands, except per share amounts)	
Basic net income per share:		
Net income	$ 9,180	$ 32,756
Weighted average common shares outstanding	85,188	85,343
Basic net income per common share	$ 0.11	$ 0.38
Diluted net income per share:		
Net income	$ 9,180	$ 32,756
Weighted average common shares outstanding — Basic	85,188	85,343
Effect of dilutive securities:		
Stock options and restricted stock	704	915
Weighted average common shares for diluted earnings per share	85,892	86,258
Diluted net income per common share	$ 0.11	$ 0.38

Common stock of approximately 0.4 million shares at March 31, 2020, and 2019 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.

Performance Shares and Restricted Units that entitle the holders to approximately 0.5 million shares of common stock are included in the basic and diluted weighted average shares outstanding calculation from their date of issuance because no further consideration is due related to the issuance of the underlying common shares.

14. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) was as follows:

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Net income	$ 9,180	$ 32,756
Foreign currency translation adjustment	(6,813)	(7,009)
Change in unrealized loss on derivatives, net of tax	(21,306)	(4,236)
Pension liability adjustment, net of tax	(68)	9
Comprehensive income (loss), net	$ (19,007)	$ 21,520

Changes in accumulated other comprehensive loss by component between December 31, 2019 and March 31, 2020 are presented in the table below, net of tax:

	Gains and Losses on Derivatives	Defined Benefit Pension Items	Foreign Currency Items	Total
	(In thousands)			
Balance at January 1, 2020	$ (26,625)	$ (9,709)	$ (40,067)	$ (76,401)
Other comprehensive loss	(20,577)	(68)	(6,813)	(27,458)
Less: Amounts reclassified from accumulated other comprehensive loss	729	—	—	729
Net current-period other comprehensive loss	(21,306)	(68)	(6,813)	(28,187)
Balance at March 31, 2020	$ (47,931)	$ (9,777)	$ (46,880)	$ (104,588)

For the three months ended March 31, 2020, the Company reclassified a loss of $0.1 million from accumulated other comprehensive loss to other income (expense), net and $0.9 million from interest income.

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 Orthopedics and Tissue Technologies segment includes such offerings as skin and wound repair, bone and joint fixation implants in the upper and lower extremities, bone grafts, and nerve and tendon repair products.

The Corporate and other category includes (i) various executive, finance, human resource, information systems 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 months ended March 31, 2020 and 2019 are as follows:

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Segment Net Sales		
Codman Specialty Surgical	$ 231,440	$ 234,568
Orthopedics and Tissue Technologies	122,884	125,122
Total revenues	$ 354,324	$ 359,690
Segment Profit		
Codman Specialty Surgical	$ 87,235	$ 91,380
Orthopedics and Tissue Technologies	31,271	40,495
Segment profit	118,506	131,875
Amortization	(6,977)	(5,279)
Corporate and other	(84,426)	(94,288)
Operating income	$ 27,103	$ 32,308

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

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

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
United States	$ 246,852	$ 256,726
Europe	45,896	48,640
Asia Pacific	39,960	35,700
Rest of World	21,616	18,624
Total Revenues	$ 354,324	$ 359,690

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 three-month period ended March 31, 2020 and March 31, 2019 to reflect the change in estimates, additions, payments, transfers and the time value of money during the period.

A reconciliation of the opening balances to the closing balances of these Level 3 measurements for the three months ended March 31, 2020 and March 31, 2019 is as follows (in thousands):

Three Months Ended March 31, 2020	Contingent Consideration Liability Related to Acquisition of Arkis (See Note 2)	Contingent Consideration Liability Related to Acquisition of Derma Sciences	Location in Financial Statements
	Long-term	Long-term	
Balance as of January 1, 2020	$ 14,210	$ 230	
Payments	—	—	
Loss from change in fair value of contingent consideration liabilities	(1,051)	—	Research and development
Balance as of March 31, 2020	$ 13,159	$ 230	

Three Months Ended March 31, 2019	Contingent Consideration Liability Related to Acquisition of Derma Sciences	Location in Financial Statements
	Long-term	
Balance as of January 1, 2019	$ 230	
Payments	—	
Loss from change in fair value of contingent consideration liabilities	—	Research and development
Balance as of March 31, 2019	$ 230	

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 liability 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 March 31, 2020 and March 31, 2019 was $0.2 million.

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, 2019 included in our Annual Report on Form 10-K.

We have made statements in this report which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). These forward-looking statements are subject to a number of risks, uncertainties and assumptions about the Company and other matters. These forward-looking statements include, but are not limited to, statements related to the Company's expectations regarding the potential impacts of the COVID-19 pandemic on our business, financial condition, and results of operations. These statements should, therefore, be considered in light of various important factors, including, but not limited to, the following: The Company's ability to obtain accurate procedure volume in the midst of the COVID-19 pandemic; the risk that the COVID-19 pandemic could lead to further material delays and cancellations of, or reduced demand for, procedures; curtailed or delayed capital spending by hospitals; disruption to the Company's supply chain; closures of our facilities; delays in gathering clinical evidence; diversion of management and other resources to respond to the COVID-19 outbreak; the impact of global and regional economic and credit market conditions on healthcare spending; the risk that the COVID-19 virus disrupts local economies and causes economies in our key markets to enter prolonged recessions. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those set forth under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019, and under the heading "Risk Factors" in this report. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

GENERAL

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

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

We have key manufacturing and research facilities located in California, New Jersey, Ohio, Massachusetts, Tennessee, Texas, Canada, France, Germany, Ireland, Switzerland and Puerto Rico. We also source most of our handheld surgical instruments, specialty metal and pyrocarbon implants, and dural sealant products through specialized third-party vendors.

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

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

Integra is committed to delivering high quality products that positively impact the lives of millions of patients and their families. We focus on four key pillars of our strategy: 1) building an execution-focused culture, 2) achieving relevant scale, 3) improving agility and innovation, and 4) leading in customer experience. We believe that by sharpening our focus on these areas through improved planning and communication, optimization of our infrastructure, and strategically aligned tuck-in acquisitions, we can build scale, increase competitiveness and achieve our long-term goals.

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

Strategic Acquisitions. An important part of the Company's strategy is pursuing strategic transactions and licensing agreements that increase relevant scale in the clinical areas in which Integra competes. In 2019, we closed out of 45 transition service agreements, covering 90 countries, marking the successful completion of the integration of the Codman Neurosurgery acquisition, the most significant acquisition in the Company’s history. This acquisition expanded the Company's portfolio of neurosurgery products and established us as the world leader in neurosurgery. It has also enabled us to bring our entire product portfolio to a global market. In 2019, we acquired Arkis Biosciences, Inc. and Rebound Therapeutics Corporation, both of which align with Company’s strategy to acquire and develop innovative technologies that address unmet needs.

Portfolio Optimization and New Product Introductions. We are investing in innovative product development to drive a multi-generational pipeline for our key product franchises. Our product development efforts span across our key global franchises focused on potential for significant returns on investment. In 2019, we launched ten new products across our key product franchises. In addition to new product development, we are funding studies to gather clinical evidence to support launches, ensure market access and improve reimbursement for existing products. In 2019, we discontinued certain low-growth, low margin products. We continue to identify ways of optimizing our portfolio including identifying low-growth, low-margin products and product franchises for discontinuation.

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

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

Clinical and Product Development Activities

We continue to invest in collecting clinical evidence to support the Company's existing products and new product launches, and to ensure that we obtain market access for broader and more cost-effective solutions.

During 2019, within the Codman Specialty Surgical segment, we launched our new electrosurgery generator and irrigator system, an innovative customer-centric toolkit for our Certas™ Plus Programmable Valve along with additional shunt configurations. We launched DuraGen® in Japan. DuraGen is the first and only non-autologous collagen xenograft approved for use as a dural substitute in Japan. We are focused on the development of core clinical applications in our electromechanical technologies portfolio. Also, we updated our CUSA Clarity platform to incorporate new ultrasonic handpiece, surgical tips and integrated electrosurgical capabilities. We continue to work with several instrument partners to bring new surgical instrument platforms to the market. This enables us to add new instruments with minimal expense and invest in ongoing development, such as our next generation of LED technology with our DUO LED Surgical Headlight System.

During 2019, within our Orthopedic and Tissue Technologies segment, we launched the Panta® II TTC Arthrodesis Nail System in the U.S. The Panta II system is our new fusion nail used in ankle fixation. We also launched a Small Post Baseplate in our Reverse Shoulder System that accommodates smaller patients. We initiated the limited market release of enhancements to our Salto Talaris® Total Ankle System. We continue to work on advanced shoulder products and are developing a pyrocarbon shoulder hemiarthroplasty product to add to our orthopedic reconstruction portfolio.

COVID-19 Pandemic

The Company's focus during this global crisis remains on supporting patients, providing customers with life-saving products, and protecting the well-being of its employees. Earlier in the first quarter of 2020, the Company implemented contingency plans to address the operational impact of COVID-19 and ensure ongoing operations. The rapid and evolving spread of the virus resulted in an unprecedented challenge to the global healthcare industry. In response to the challenge as the pandemic evolved in March 2020, the Company has expanded its contingency plans to enable its manufacturing and distribution sites around the world to continue operating at levels required to meet demand and to provide for the safety of its employees. In addition, the Company has initiated significant cost-savings measures in April, which include the following:

- Reduced executive management and director compensation
- Reduced cash compensation for all other employees through reduced commissions, reduction in hours, and/or furloughs
- Hiring freeze, elimination of overtime, cessation of third-party services and temporary contractor relationships
- Significant reduction in capital expenditures and discretionary spending including travel, events and marketing programs

The Company remains confident that the markets in which it competes remain attractive over the long term. These comprehensive spending cuts were necessary to protect our financial strength in the face of near-term challenges. Yet, despite those challenges, the Company remains focused on managing the business for the long-term, including preserving full time jobs needed to support the expected rebound in surgical procedure volumes. The Company's adaptability and resiliency in the face of this unprecedented crisis is made possible in part by prior investments in technology infrastructure and operations as well as our talented and committed global workforce. And despite the current cost-reduction measures, we continue to prioritize and invest in our critical R&D and clinical programs. Based on the ongoing impact from restrictions on surgical procedures and shelter-in-place policies, the Company expects revenue to decline in the second quarter of 2020. The Company cannot predict with certainty the extent to which the COVID-19 pandemic will impact procedures in the second quarter and beyond.

Information pertaining to additional risk factors as it relates to COVID-19 can be found in Item 1A. Risk Factors.

FDA Matters

On June 22, 2015, the FDA (the “FDA”) issued an Untitled Letter (the "Untitled Letter") alleging that BioD LLC's ("BioD") morselized amniotic membrane tissue based products do not meet the criteria for regulation as HCT/Ps solely under Section 361 of the Public Health Services Act ("Section 361") and that, as a result, BioD would need a biologics license to lawfully market those morselized products. Since the issuance of the Untitled Letter, BioD and more recently the Company have been in discussions with the FDA to communicate their disagreement with the FDA’s assertion that certain products are more than

minimally manipulated. The FDA has not changed its position that certain of the BioD acquired products are not eligible for marketing solely under Section 361.

In November 2017, the FDA issued the final guidance document related to human tissue titled, “Regulatory Considerations for Human Cells, Tissues, and Cellular and Tissue-Based Products: Minimal Manipulation and Homologous Use” (the “HCT/P Final Guidance”). The HCT/P Final Guidance maintains the FDA’s position that products such as the Company’s morselized amniotic membrane tissue-based products do not meet the criteria for regulation solely as HCT/Ps. In addition, the FDA articulated a risk-based approach to enforcement and, while some uses for amniotic membrane tissue-based products would have as much as thirty-six months of enforcement discretion, other high risk uses could be subject to immediate enforcement action. The Company does not believe the uses for its amniotic membrane tissue-based products fall into the high-risk category. As of March 31, 2020 the Company has not received any further notice of enforcement action from the FDA regarding its morselized amniotic tissue-based products. Nonetheless, we can make no assurances that the FDA will continue to exercise its enforcement discretion with respect to the Company’s morselized amniotic membrane tissue-based products, and any potential action of the FDA could have a financial impact regarding the sales of such products. The Company has been considering and continues to consider regulatory approval pathways for its morselized amniotic membrane tissue-based products.

Revenues from BioD morselized amniotic membrane based products for the three months ended March 31, 2020 were less than 1.0% of consolidated revenues.

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

Revenues of products manufactured in the TEI Boston facility for the three months ended March 31, 2020 were approximately 4.9% of consolidated revenues.

RESULTS OF OPERATIONS

Executive Summary

Net income for the three months ended March 31, 2020 was $9.2 million, or $0.11 per diluted share, as compared to $32.8 million or $0.38 per diluted share for the three months ended March 31, 2019.

The net income for the three months ended March 31, 2020 was impacted by the COVID-19 pandemic which resulted in a decrease to revenue and additional expenses due to COVID-19 related charges. Further, the Company also had an increase in interest expense due to the issuance of the Convertible Senior Notes and valuation allowance on certain deferred tax assets as a result of the impact of the COVID-19 pandemic and lower book income in lower-taxed jurisdictions.

Prior to the spread of COVID-19, the Company experienced procedure growth trends consistent with those experienced in the fourth quarter of 2019, including strength in general surgery, growth across both divisions in the U.S., and strong performance in international markets. For the first two and a half months of the first quarter of 2020, revenue was trending at the higher end of the Company’s expectations. However, in March as a result of the speed and severity of the spread of COVID-19, Federal, state and several medical and professional associations began to recommend patients defer treatment of all non-urgent medical conditions. These recommendations included unprecedented shelter-in-place policies across the country, which in addition to limiting elective procedures, resulted in a much lower incidence of traumatic injuries, which are a meaningful part of our procedure

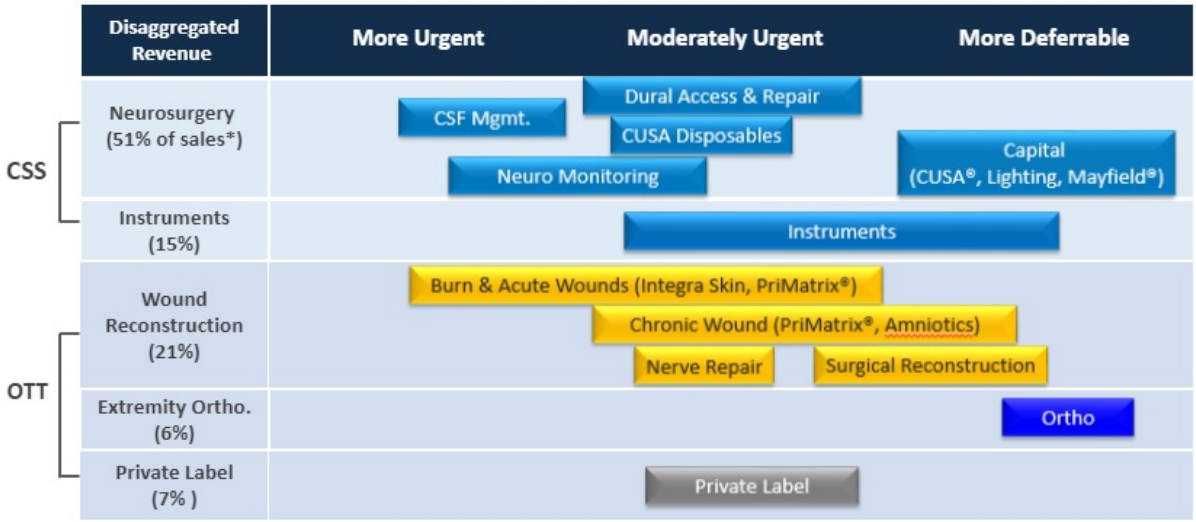
base. As a result, in mid-March the Company began to experience a significant decline in surgical and medical intervention procedures as healthcare providers reallocated resources to address the increasing demands caused by COVID-19.

The Company's first quarter performance reflects the early impact of the COVID-19 global pandemic and our initial response. By reacting swiftly in February and working with customers and distributors, we were largely able to mitigate the initial revenue impact of the social and economic shutdowns that took place in large parts of China. First quarter total revenues as of March 31, 2020, were $354 million, representing a decline of 1.5% from prior year revenues. The Company has estimated the revenue impact from the decline in surgical procedures to be approximately $20 to $25 million in the first quarter of 2020 compared to its original first quarter revenue expectations. Based on April trends and the ongoing impact from restrictions on surgical procedures and shelter-in-place policies, the Company expects a more substantial negative impact on second quarter performance. The Company believes it is important to remember that our underlying end-markets, especially neurosurgery and regenerative medicine, are not experiencing fundamental changes to the disease conditions. In many cases these conditions can only be deferred for a short period of time, after which an adverse clinical outcome can occur.

In the Codman Specialty Surgical segment, the Company saw growth across all Neurosurgery products, led by notable outperformance in CSF management and advanced energy. The Instruments business declined double-digits in the first quarter of 2020 driven by COVID-19 related deferrals on small capital equipment and general surgical instruments. The Company had a solid start to the quarter with strong performance in its Neurosurgery products, including dural access and repair due to continued growth in Japan, and advanced purchases in several international indirect markets due to increased concerns over the spread of COVID-19. In the second half of March the segment was heavily impacted by COVID-19, as the Company saw steep declines in sales across all products, particularly in the U.S. markets. Overall global revenues declined by low single digits in the first quarter of 2020 mainly driven by declines in sales due to COVID-19. The impact of COVID-19 on this segment is approximately $10 to $13 million compared to its original first quarter revenue expectations.

In the Orthopedics and Tissue Technologies segment, the Company also saw early strength in our regenerative products, driven mostly by amniotics and Surgimend, as supply was increased following capacity expansion investments made last year. The Company's broader wound reconstruction portfolio saw strong customer demand in the first couple months of Q1 2020 however, during March the Company saw a decline in these products largely due to the impact of COVID-19 in areas such as non-emergent chronic wounds and plastic and reconstructive surgical procedures. Additionally, the Company’s private label business reported mid-single digit sales growth, with limited COVID-19 impact as first quarter orders were largely pre-scheduled and in line with expectations. Beginning in late March, the Company saw a significant slowing of its Orthopedics business as non-emergent surgeries began to get deferred resulting in a decrease of mid-single digits in these products for the first quarter of 2020. Overall global revenues declined by low single digits in the first quarter of 2020 resulting from the impact of COVID-19 on this segment of approximately $10 to 12 million compared to its original first quarter revenue expectations.

The depth and extent to which the COVID-19 pandemic will impact individual markets will vary based on the availability of testing capabilities, personal protective equipment, intensive care units and operating rooms, and medical staff as well as government interventions. As COVID-19 continues to spread, it is likely that surgical procedures will decline from those rates experienced in the first quarter of 2020. While some markets, e.g., China, appear to be recovering, it is possible that a recurrence of COVID-19 will negatively impact non-emergent surgical procedures. For both the Codman Specialty Surgical and Orthopedics and Tissue Technologies segments, the Company has assigned each of its core product families into one of three categories based on procedure severity, meaning whether a procedure is more urgent, moderately urgent or more deferrable. For example, where the Company has visibility, as in traumatic brain injuries which require cerebral spinal fluid management or neuro monitoring, or burns and acute wounds, it has classified these products as more urgent. The Company has classified products such as orthopedics and small capital equipment as more deferrable, as the Company has seen hospitals defer these related procedures and purchases in light of COVID-19 resource and near-term budget prioritization. A large percentage of the Company's products fall into the moderately urgent category including dural access & repair and chronic wounds. The majority of these moderately urgent products involve procedures that cannot be deferred beyond 30 to 90 days without an adverse clinical outcome. The Company notes that there is some level of variability in these category assessments, as physicians will need to evaluate patients’ underlying medical conditions to determine procedure urgency. Moreover, the Company does not expect all markets to recover at the same pace. While we cannot reliably estimate the extent or length of the impact with certainty, we expect procedure volume to significantly decline or be delayed in the second quarter of 2020 and beyond as COVID-19 infections spread, causing additional strain on hospital resources, coupled with the recommended deferrals of less urgent procedures by governments and other authorities. The Company's revenue profile amidst COVID-19 is as follows:



Capital markets and worldwide economies have also been significantly impacted by the COVID-19 pandemic, and it is possible that it could cause a local and/or global economic recession. Such economic recession could have a material adverse effect on the Company's long-term business as hospitals curtail and reduce capital and overall spending. The COVID-19 pandemic and local actions, such as “shelter-in-place” orders and restrictions on our ability to travel and access our customers or temporary closures of our facilities or the facilities of our suppliers and their contract manufacturers, could further significantly impact our sales and our ability to ship our products and supply our customers. Any of these events could negatively impact the number of surgical and medical intervention procedures performed and have a material adverse effect on our business, financial condition, results of operations, or cash flows.

Income before taxes includes the following special charges:

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Acquisition and integration-related charges	$ 6,166	$ 19,463
Structural optimization charges	2,896	4,797
EU medical device regulation	2,187	1,109
Litigation charges	346	1,249
Discontinued product lines charges	3,185	1,400
COVID-19 pandemic related charges (1)	4,706	—
Expenses related to debt refinancing	2,740	—
Convertible debt non-cash interest expense	2,529	—
Total	$ 24,755	$ 28,018

(1) Charges relates to business interruptions and cost associated from COVID-19 pandemic which impacted the Company's operations globally.

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

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Cost of goods sold	$ 9,307	$ 3,883
Research and development	(1,051)	1,675
Selling, general and administrative	11,230	22,460
Interest expense	5,269	—
Total	$ 24,755	$ 28,018

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

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

Revenues and Gross Margin

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

	Three Months Ended March 31,	
	2020	2019
Segment Net Sales	(Dollars in thousands)	
Codman Specialty Surgical	$ 231,440	$ 234,568
Orthopedics & Tissue Technologies	122,884	125,122
Total revenue	354,324	359,690
Cost of goods sold	133,476	128,912
Gross margin on total revenues	$ 220,848	$ 230,778
Gross margin as a percentage of total revenues	62.3%	64.2%

Three Months Ended March 31, 2020 as Compared to Three Months Ended March 31, 2019

Revenues and Gross Margin

For the three months ended March 31, 2020, total revenues decreased by $5.4 million to $354.3 million from $359.7 million for the same period in 2019. Domestic revenues decreased by $9.9 million, or (3.8)%, to $246.9 million and were 69.7% of total revenues for the three months ended March 31, 2020. International revenues increased by $4.5 million to $107.5 million for the three months ended March 31, 2020 compared to $103.0 million during the same period in the prior year. The net decrease of $5.4 million was a result of decline in both segments due to disruption from COVID-19 as well as an unfavorable impact of foreign exchange of $1.7 million and $3.5 million due to discontinued and divested products.

Codman Specialty Surgical revenues were $231.4 million, a decrease of $3.1 million, or (1.3)% from the prior-year period. The decrease primarily resulted from Instruments which decreased double-digits offset by single-digit growth in Dural Access and Repair and CUSA Clarity offset with an unfavorable impact of foreign exchange.

Orthopedics and Tissue Technologies revenues were $122.9 million, a decrease of $2.2 million, or (1.8)% from the prior-year period. Upper and Lower extremities sales decreased mid-single digits compared to the same period last year.

Gross margin decreased to $220.8 million for the three-month period ended March 31, 2020, a decrease of $10 million from $230.8 million for the same period last year. Gross margin as a percentage of total revenue decreased to 62.3% for the first quarter of 2020 from 64.2% in the same period last year. This decrease primarily related to increase in inventory reserves for discontinued product lines and charges occurred because of COVID-19 pandemic.

Operating Expenses

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

	Three Months Ended March 31,	
	2020	2019
Research and development	5.9%	5.1%
Selling, general and administrative	46.8%	48.6%
Intangible asset amortization	2.0%	1.5%
Total operating expenses	54.7%	55.2%

Total operating expenses, which consist of selling, general and administrative expenses, research and development expenses, in-process research and development expense and amortization expenses, decreased by $4.7 million, or (2.4)% to $193.7 million in the three months ended March 31, 2020, compared to $198.5 million in the same period in 2019.

Research and development expenses for the three months ended March 31, 2020 increased by $2.5 million as compared to the prior year primarily resulting from costs related to product development, including product development for the new acquisition completed in 2019. General and administrative costs decreased by $9.8 million as compared to the prior year primarily resulting from less acquisition and integration related charges compared to three month period ended March 31, 2019.

The Company's spending in the first quarter of 2020 reflected normal business activities into March as well as incurring certain costs associated with the impact of the COVID-19 pandemic, including doubtful account reserves, expedited freight, contract cancellation fees, personal protection equipment for our employees, and extra cleaning of our facilities. While certain spending will decrease in the second quarter of 2020 as a result of a reduction in revenue and activities limited by the COVID-19 pandemic, much of our spending will continue. We will continue to support our customers and invest in manufacturing and our supply chain to ensure supply for our customers. Certain costs will decline as the underlying activities are restricted by the COVID-19 pandemic, including travel and related expenses. The Company has eliminated spending that is ineffective due to the COVID-19 pandemic, such as surgeon and hospital events, and we are pausing hiring and outside professional services.

Non-Operating Income and Expenses

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

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Interest income	$ 2,570	$ 2,428
Interest expense	(17,752)	(13,149)
Other income(expense), net	(479)	3,236

Interest Income and Interest Expense

Interest expense for the three months ended March 31, 2020 increased by $4.6 million as compared to the same period last year primarily due to increased interest expense, including non-cash interest expense, due to the issuance of the Convertible Senior Notes and expenses associated with Amended and Restated Senior Credit Agreement.

Other Income (Expense), net

Other income (expense), net for the three months ended March 31, 2020, decreased by $3.7 million as compared to the same period last year primarily due to unfavorable impact of foreign exchange.

Income Taxes

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Income before income taxes	$ 11,442	$ 24,823
Income tax (benefit) expense	2,262	(7,933)
Effective tax rate	19.8%	(32.0)%

The Company’s effective income tax rates for the three months ended March 31, 2020 and 2019 were 19.8% and (32.0)%, respectively.

For the three months ended March 31, 2020, the primary drivers of the higher tax rate were lower book income in lower-taxed jurisdictions and a $3.3 million valuation allowance on certain foreign deferred tax assets as the Company determined that it is no longer more likely than not that these foreign deferred tax assets would be realized due to the adverse impact of the COVID-19 pandemic in certain jurisdictions.

For the three months ended March 31, 2019, the primary drivers of the lower rate were a tax benefit of $10.8 million related to federal tax holiday in Switzerland and $0.7 million higher tax benefit related to equity compensation. The Company received a Switzerland federal tax credit of 12 million CHF, which can be used over a seven-year period, ending in 2024.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. The CARES Act includes certain income tax provisions for corporations and individuals, among other provisions. The Company does not expect the CARES Act to have a significant impact on the tax provision for income.

The Company expects its effective income tax rate for the full year to be approximately (14.6)% driven primarily by the projection of a full year pretax loss from the impact of the COVID-19 on the Company's U.S. GAAP financial results. This estimate could be revised in the future as additional information is presented to the Company.

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

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

GEOGRAPHIC PRODUCT REVENUES AND OPERATIONS

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

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
United States	$ 246,852	$ 256,726
Europe	45,896	48,640
Asia Pacific	39,960	35,700
Rest of World	21,616	18,624
Total Revenues	$ 354,324	$ 359,690

The Company generates significant revenues outside the U.S., a portion of which are U.S. dollar-denominated transactions conducted with customers who generate revenue in currencies other than the U.S. dollar. As a result, currency fluctuations between the U.S. dollar and the currencies in which those customers do business could have an impact on the demand for the Company's 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 to $246.9 million for the three months ended March 31, 2020 compared to the same period last year. European sales decreased by $2.7 million for the three months ended March 31, 2020 compared to the same period last year. Decrease in Domestic and European revenues was primarily due to adverse effects of the COVID-19 pandemic. Sales to customers in Asia Pacific and the Rest of the World for the three months ended March 31, 2020 increased by $7.3 million compared to the same period last year primarily driven by increases including Dural Access and Repair due to continued growth in Japan, and growth in international sales due partially to advanced purchases in several indirect markets due to increased concerns over the spread of COVID-19 in overseas countries.

LIQUIDITY AND CAPITAL RESOURCES

Cash and Marketable Securities

The Company had cash and cash equivalents totaling approximately $357.7 million and $198.9 million at March 31, 2020 and December 31, 2019 respectively, which are valued based on Level 1 measurements in the fair value hierarchy. At March 31, 2020, our non-U.S. subsidiaries held approximately $152.2 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. The Company does not anticipate the need to repatriate earnings from foreign subsidiaries as a result of the impact of the COVID-19 pandemic.

Cash Flows

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Net cash provided by operating activities	$ 20,814	$ 29,484
Net cash used in investing activities	(21,485)	(15,806)
Net cash provided by financing activities	162,005	5,393
Effect of exchange rate fluctuations on cash	(2,533)	(884)

Cash Flows Provided by Operating Activities

Operating cash flows for the three months ended March 31, 2020 decreased compared to the same period in 2019. Net income after non-cash adjustments decreased for the three months ended March 31, 2020 by approximately $5.8 million compared to the same period in 2019 primarily due to adverse effects of the COVID-19 pandemic. The changes in assets and liabilities, net of business acquisitions, decreased cash flows from operating activities by $32.4 million for the three months ended March 31, 2020 compared to an increase of $29.5 million for the same period in 2019. The decrease in 2020 is primarily driven by increased investment in inventories related to new product launches and legal entity manufacturing changes associated with the Codman Neurosurgery acquisition integration. In addition, decreases were also driven by reduced payables offset by decreases in accounts receivable due to progress in collection efforts.

Cash Flows Used in Investing Activities

During the three months ended March 31, 2020, we paid $16.5 million for capital expenditures, most of which were directed to our Mansfield, Massachusetts facility, our new Princeton, New Jersey facility and commercial expansion and $5.0 million payment related to the first developmental milestone for Rebound.

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

Cash Flows Used in Financing Activities

Our principal sources of cash from financing activities in the three months ended March 31, 2020 were $515.3 million proceeds from the issuance of Convertible Senior Notes including the call and warrant transactions, $113.2 million borrowing under our Senior Credit Facility and Securitization Facility and $2.3 million in proceeds from the exercise of stock options. These were offset by repayments of $344.2 million on the revolving portion of our Senior Credit Facility and Securitization Facility, $20.3 million debt issuance costs related to the Amended and Restated Credit Agreement, $100 million purchases of treasury stock and $4.3 million cash taxes paid in net equity settlement.

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

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

See Note 6 - *Debt* to the current period's condensed consolidated financial statements for a discussion of our Amended and Restated Senior Credit Agreement, Convertible Senior Notes and Securitization Facility and Note 7 - *Derivative Instruments* for discussion of our hedging activities.

As a result of the COVID-19 pandemic, we expect to continue to experience materially lower sales for as long as the deferral of surgeries continues. We are forecasting that for the next twelve months, sales and earnings will be sufficient to remain in compliance with our financial covenants under the terms of the February 2020 Amendment to the Senior Credit Facility. We have undertaken steps to reduce our spending and expenses in light of our expectation that our revenues will be depressed over the next several months. While we expect that we will be well positioned when surgeries begin to return to their pre-pandemic levels, we are unable to predict with certainty how long the COVID-19 pandemic will last, or how severe its economic impact will be. Even after the COVID-19 pandemic and government responses thereto have subsided, residual economic and other effects may have an impact on the demand for post-pandemic surgery levels that are difficult to predict. If the downturn is more severe and prolonged than we currently expect, we may need to take further steps to reduce our costs.

Share Repurchase Plan

On December 11, 2018, the Board of Directors authorized the Company to repurchase up to $225.0 million of the Company's common stock. The program allows the Company to repurchase its shares opportunistically from time to time. The repurchase authorization expires in December 2020.

During the three months ended March 31, 2020, the Company repurchased 1.4 million shares of Integra's common stock as a part of our existing share repurchase authorization. The Company utilized $100.0 million of net proceeds from the offering of the Convertible Senior Notes to execute the share repurchase transactions. This included $7.6 million from certain purchasers of the convertible notes in conjunction with the closing of the offering. On February 5, 2020, the Company entered into a
$92.4 million accelerated share repurchase ("ASR") to complete the remaining $100.0 million of share repurchase. The Company received 1.3 million shares through an accelerated share repurchase ("ASR"), which represented approximately 80% of the expected total shares. The remaining 20% of the expected total shares is expected to settle during the second quarter of 2020, upon which additional shares of common stock may be delivered to the Company or, under certain circumstances, the Company may be required to make a cash payment or may elect to deliver shares of our common stock to the ASR counterparty. The total number of shares to be delivered or the amount of such payment, as well as the final average price per share, will be based on the volume-weighted average price, less a discount, of our common stock during the term of the transaction.

The Company has $125.0 million remaining under the share repurchase of its Common Stock. 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.

Dividend Policy

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

Capital Resources

We believe that our cash and available borrowings under the Senior Credit Facility are sufficient to finance our operations and capital expenditures for the foreseeable future. Our future capital requirements will depend on many factors, including the growth of our business, the timing and introduction of new products and investments, strategic plans and acquisitions, among others. Additional sources of liquidity available to us include short term borrowings and the issuance of long term debt and equity securities. Further, as part of our actions to manage the impacts of COVID-19 on our business, we will significantly reduce our capital expenditures for 2020.

As a result of the COVID-19 pandemic, the Company expects to experience reduced cash flow from operations as a result of decreased revenues and earnings. Moreover, we are focused on ensuring that we have adequate inventory on hand given the potential disruption of the COVID-19 pandemic to our suppliers and their supply chain and, accordingly, may continue to maintain these higher levels of inventory during the second quarter of 2020 and beyond.

Off-Balance Sheet Arrangements

The Company has no off–balance sheet financing arrangements during the three months ended March 31, 2020 that have or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our interests.

Contractual Obligations and Commitments

As of March 31, 2020, the Company is obligated to pay the following amounts under various agreements:

	Payments Due by Calendar Year				
	Total	Remaining 2020	2021-2022	2023-2024	Thereafter
			(In millions)		
Revolving Credit Facility (1)	$ 150.0	$ —	$ —	$ —	$ 150.0
Term Loan	877.5	—	78.8	129.3	669.4
Securitization Facility (1)	98.5	—	98.5	—	—
Convertible Debt (4)	575.0	—	—	—	575.0
Interest (2)	91.1	15.6	39.6	34.4	1.5
Employment Agreements (3)	0.7	0.7	—	—	—
Operating Leases	154.2	10.6	27.8	23.3	92.5
Purchase Obligations	1.0	0.6	0.4	—	—
Other	4.4	1.0	0.7	1.6	1.1
Total	$ 1,952.4	$ 28.5	$ 245.8	$ 188.6	$ 1,489.5

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

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

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

(4) On February 4, 2020, the Company issued $575.0 million aggregate principal amount of its of 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 Notes. See Note 6, *Debt*, for the details on the 2025 Notes.

The Company has excluded its contingent consideration obligation related to a prior and current year acquisitions from the contractual obligations table above; this liability had a total estimated fair value of $13.4 million at March 31, 2020. This liability has been excluded because the amount to be paid and the potential payment date is not fixed.

The Company has excluded its option to acquire Integrated Shoulder Collaboration Inc., which becomes mandatory upon achievement of a certain sales threshold, for an amount not to exceed $80.0 million. This liability has been excluded because the amount to be paid and the potential payment date is not fixed.

The Company has excluded its future pension contribution obligations and deferred compensation obligations from the table above. This has been excluded because the future amounts to be paid and the potential payment dates are not fixed.

The Company has excluded the liability for uncertain tax benefits from the contractual obligations table above, including interest and penalties, totaling $0.8 million at March 31, 2020. This liability for uncertain tax benefits has been excluded because we cannot make a reliable estimate of the period in which the uncertain tax benefits may be realized.

OTHER MATTERS

Critical Accounting Estimates

The critical accounting estimates included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019 have not materially changed.

Recently Issued Accounting Standards

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign Currency Exchange and Other Rate Risks

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

From time to time, we enter into foreign currency forward exchange contracts to manage currency exposures for transactions denominated in a currency other than an entity's functional currency. As a result, the impact of foreign currency gains/losses recognized in earnings are partially offset by gains/losses on the related foreign currency forward exchange contracts in the same reporting period. Refer to Note 7, *Derivative Instruments* 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 point movement in interest rates applicable to our cash and cash equivalents outstanding at March 31, 2020 would increase interest income by approximately $3.6 million on an annual basis. No significant decrease in interest income would be expected as our cash balances are earning interest at rates of approximately one basis point. We are subject to foreign currency exchange risk with respect to cash balances maintained in foreign currencies.

Debt - Our interest rate risk relates primarily to U.S. dollar LIBOR-indexed borrowings. We use interest rate derivative instruments to manage our earnings and cash flow exposure to changes in interest rates. These interest rate swaps fix the interest rate on a portion of our expected LIBOR-indexed floating-rate borrowings. See Note 7, *Derivative Instruments*, for the details of interest rate swaps.

The total notional amount of interest rate swaps in effect as of March 31, 2020 was $900 million. Based on our outstanding borrowings at March 31, 2020, a 100 basis points change in interest rates would have impacted interest expense on the unhedged portion of the debt by $2.3 million on an annualized basis.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

As required by Exchange Act Rule 13a-15(b), the Company has carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2020. Based upon this evaluation, our principal

executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2020 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 March 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information pertaining to legal proceedings can be found in Note 16. Commitment and Contingencies.

ITEM 1A. RISK FACTORS

The following risk factors are in addition to the risks described in the Company's Form 10-K under Item 1A, "Risk Factors" for its fiscal year ended December 31, 2019 and in its subsequent periodic reports filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended. The risk factors described below may have the effect of heightening many of the risks contained in the Company's Form 10-K and other periodic reports.

The effects of the COVID-19 pandemic have significantly impacted global economic conditions and have affected our operations, supply chain, distribution, sales force, as well as the financial stability of hospitals and other customers, and could cause a reduction in all operative procedures, which could materially adversely affect our business, results of operations, financial condition, and stock price.

On March 11, 2020, the World Health Organization ("WHO") characterized the Novel Coronavirus Disease 2019 ("COVID-19") as a pandemic. On March 13, 2020, the President of the United States declared a national emergency in response to the COVID-19 pandemic. In an effort to control the spread of COVID-19, governments around the world, including in the U.S., have implemented measures including quarantines, "shelter in place" orders, "stay at home" orders, travel restrictions, business operation restrictions, school closures, and other similar types of measures. The impact of the pandemic, while still evolving, has caused significant economic and financial uncertainty in the U.S. and around the world, generating concerns the effects will lead to a global recession or depression. Governments around the world are attempting to mitigate the economic impact by passing fiscal stimulus measures to assist monetarily with the impacts of COVID-19. Furthermore, variance in actions by governments around the world, economic or otherwise, could result in disparate impact on businesses, including our business, and lead to impactful geopolitical instability.

We are unable to assess with certainty the extent to which COVID-19 impacts our future results. Those impacts will depend on future developments that are highly unpredictable and uncertain, such as the severity of the pandemic and global actions in response thereto. Our existing insurance coverage will not provide protection for all of the COVID-19-related disruption that has or may arise during this time. Our management team is focused on mitigating adverse effects of the pandemic, thereby shifting their focus from other priorities. Should these conditions worsen, or endure for an extended period of time, the Company may face operational and other risks that the Company faced prior to the pandemic but are elevated due to the disruption of the pandemic. We continue to assess our business operations and the impact COVID-19 may have on our financial results, but there are no assurances that such analysis will enable us to avoid or precisely forecast the impact or consequences of COVID-19, including business downturns and/or a recession. A recession or depression could materially affect our business, including but not limited to our future access to capital, and negatively impact the value of our stock.

Our ability to manufacture products may be materially adversely impacted by the coronavirus.

Similar to many other employers in the U.S., the Company is requiring many employees to work remotely. We have continued to operate certain manufacturing facilities to date in compliance with federal, state and local orders regarding COVID-19. The health of the Company's workforce is our top concern. Accordingly, the Company's management team may have to enact further precautionary measures to minimize any impact to our employees. Should our ability to manufacture as a result of COVID-19 be impacted it may not be possible for us to manufacture relevant products at required levels or at all. We may not be able to obtain necessary products or components from our suppliers and vendors due to the additional constraints. A reduction or interruption in any of our manufacturing processes could have a material adverse effect on our business, results of operations, financial condition and cash flows which include, without limitation, the Company's liquidity or access to, or cost of, credit. The Company is unable to quantify the full extent of the impact nor is it able to predict the ultimate consequences. Moreover, continuation of manufacturing operations may be dependent upon adequate access to personal protective equipment ("PPE"). In the event that access to PPE is constrained, manufacturing operations maybe impacted.

Our sales may be materially adversely impacted by the coronavirus.

In March 2020, the Centers for Medicare and Medicaid Services (“CMS”) recommended the postponement of elective procedures until further notice to preserve PPE. The American College of Surgeons (the “ACS”), following CMS, called for hospitals to “minimize, postpone or cancel” elective procedures until the COVID-19 outbreak slows down. On April 16, 2020, the President of the United States announced a plan that would allow elective surgeries to resume. On April 17, 2020, the ACS released a guide for health care facilities preparing to resume elective surgery once the COVID-19 disease was under control in their respective areas. The postponement from March of elective surgeries may negatively impact the demand for and sales of our products. A major component of our sales force function is the ability to meet with health care providers in person to discuss our products. Moreover, continuation of sales maybe dependent upon adequate access to PPE in order to gain access to health care providers. In the event that access to PPE is constrained, sales may be impacted. The current “shelter in place” and social distancing mandates may negatively affect demand by limiting the ability of our sales force to maintain their contacts with health care personnel for an unknown period of time. Additionally, variance on a state-by-state basis of the resumption of elective surgeries may further impact our business. There is also a risk that our international distributors may not remain financially viable due to COVID-19 and that our customers will not be able to purchase our products or pay for such products on a timely basis, or at all. As a result, we are uncertain as to whether our sales force, distributors, and customers will be able to increase or maintain current levels of sales or pricing, which could materially adversely impact our business.

We are subject to stringent domestic and foreign medical device regulations and any adverse regulatory action may adversely affect our financial condition and business operations.

Our products, development activities and manufacturing processes are subject to extensive and rigorous regulation by numerous government agencies, including the FDA and comparable foreign agencies. To varying degrees, each of these agencies monitors and enforces our compliance with laws and regulations governing the development, testing, manufacturing, labeling, marketing and distribution of our medical devices. We are also subject to regulations that may apply to certain of our products that are Drug/Device Combination products or are considered to be subject to pharmaceutical regulations outside the U.S. The process of obtaining marketing approval or clearance from the FDA and comparable foreign regulatory agencies for new products, or for enhancements or modifications to existing products, could

- take a significant amount of time;
- require the expenditure of substantial financial and other resources;
- involve rigorous and expensive pre-clinical and clinical testing, as well as increased post-market surveillance;
- lead to failed clinical trials or weakened clinical evidence
- involve modifications, repairs or replacements of our products; and
- result in limitations on the indicated uses of our products.

We cannot be certain that we will receive required approval or clearance from the FDA and foreign regulatory agencies for new products or modifications to existing products on a timely basis. The failure to receive approval or clearance for significant new products or modifications to existing products on a timely basis could have a material, adverse effect on our financial condition and results of operations.

Both before and after a product is commercially released, we have ongoing responsibilities under FDA and foreign regulations. For example, we are required to comply with the FDA's Quality System Regulation, which mandates that manufacturers of medical devices adhere to certain quality assurance requirements pertaining to, among other things, validation of manufacturing processes, controls for purchasing product components, and documentation practices. As another example, the Federal Medical Device Reporting regulation requires us to provide information to the FDA whenever there is evidence that reasonably suggests that a device may have caused or contributed to a death or serious injury or, that a malfunction occurred which would be likely to cause or contribute to a death or serious injury upon recurrence. Compliance with applicable regulatory requirements is subject to continual review and is monitored rigorously through periodic inspections by the FDA, which may result in observations on Form 483, and in some cases warning letters, that require corrective action. If the FDA or equivalent foreign agency were to conclude that we are not in compliance with applicable laws or regulations, or that any of our medical devices are ineffective or pose an unreasonable health risk, the FDA or equivalent foreign agency could ban such medical devices, detain or seize such medical devices, order a recall, repair, replacement, or refund of such devices, or require us to notify health professionals and others that the devices present unreasonable risks of substantial harm to the public health.

Governments are expected to continue to scrutinize the industry closely with inspections, and possibly enforcement actions, by the FDA or equivalent foreign agencies. Additionally, the FDA may restrict manufacturing and impose other operating restrictions, enjoin and restrain certain violations of applicable law pertaining to medical devices, and assess civil or criminal penalties against our officers, employees, or us. The FDA may also recommend prosecution to the Department of Justice. 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 financial condition and results of operations. In addition, negative publicity and product

liability claims resulting from any adverse regulatory action could have a material, adverse effect on our financial condition and results of operations.

While we have taken measures to enhance our Quality System, we cannot assure that future inspections by the FDA and the standards they apply will not result in warning letters for any facility in the future. We are also subject to inspections of our Quality System by regulatory agencies outside the U.S. which could result in the issuance of nonconformance or significant requirements to our Quality System.

The FDA Reauthorization Act of 2017 (“FDARA”), which includes the reauthorization of the Medical Device User Fee Amendments of 2012, as well as other medical device provisions, went into effect October 1, 2017. This includes performance goals and user fees paid to the FDA by medical device companies when they register and list with the FDA and when they submit an application to market a device in the U.S. Under FDARA, this user fee program has been reauthorized through fiscal year 2022. Under the Medical Device User Fee Amendments, or MDUFA III, there are additional requirements regarding the FDA Establishment Registration and Listing of Medical Devices. All U.S. and foreign manufacturers must register and list medical devices for sale in the U.S. All of our facilities comply with these requirements. That said, we also source products from foreign contract manufacturers and we continue to monitor their compliance with these regulations. In such an event, we will need to determine if there are alternative foreign contract manufacturers who comply with the FDA Establishment Registration requirements. If such a foreign contract manufacturer is a sole supplier of one of our products, there is a risk that we may not be able to source another supplier and our business could be adversely affected.

We are subject to extensive complex regulatory requirements by domestic and foreign government agencies and any failure to comply with our ongoing responsibilities under their applicable laws and regulations could result in a material adverse impact on our business.

In addition, the United States Federal Food, Drug, and Cosmetic Act (“FDCA”) permits device manufacturers to promote products solely for the uses and indications set forth in the approved product labeling. A number of enforcement actions have been taken against manufacturers that promote products for “off-label” uses, including actions alleging that federal health care program reimbursement of products promoted for "off-label" uses are false and fraudulent claims to the government. The failure to comply with “off-label” promotion restrictions can result in significant financial penalties and a required corporate integrity agreement with the federal government imposing significant administrative obligations and costs, and potential evaluation from federal health care programs.

Foreign governmental regulations have become more stringent and we may become subject to even more rigorous regulation by foreign governmental authorities in the future, which could have a material, adverse effect on our business, financial condition and results of operations. Penalties for a company's noncompliance with foreign governmental regulation could be severe, including revocation or suspension of a company's business license and criminal sanctions. For example, we are subject to Good Manufacturing Practice regulations for Pharmaceuticals in the EU for certain of our products. These regulations also mandate that manufacturers of medical devices (or those that are considered pharmaceuticals) adhere to certain quality assurance requirements pertaining to, among other things, validation of manufacturing processes, controls for purchasing product components, and documentation practices. There may be additional regulations if such products are considered pharmaceuticals outside the U.S.

In addition, the European Medical Device Regulation (“EU MDR”) passed in the European Parliament on April 5, 2017 and went into effect on May 25, 2017, replacing the Medical Device Directive. The EU MDR is an extensive reform of the rules that govern the medical device industry in Europe. Under this regulation, manufacturers will have three (3) years to comply with a broad set of new rules for almost every kind of medical device. The EU MDR will require changes in the clinical evidence required for medical devices, post-market clinical follow-up evidence, annual reporting of safety information for Class III products, and bi-annual reporting for Class II products, Unique Device Identification (“UDI”) for all products, submission of core data elements to a European UDI database prior to placement of a device on the market, reclassification of medical devices, and multiple other labeling changes. The European Parliament has recently announced changes to the timing of implementation for Class I Reusable from May 26, 2020 to May 26, 2024 and the EUDAMED Database from May 26, 2020 to May 26, 2022.

Under the EU MDR rules, medical device companies will have to, among other things, do the following:

- provide significantly more clinical evidence to bring new products to market and even to keep existing products on the market;
- make changes to product labeling, register every CE Marked product and make certain product data available tin the EUDAMED database which will be available to the public; and
- conduct product portfolio assessments to determine the impact of the EU MDR on the Company's margins.

Overall, medical device companies can expect longer lead times to obtain product registrations (CE Mark Certification) in the EU and a substantially costlier pathway to compliance in the EU. We are not yet able to determine the costs of complying with these regulations, how the EU will interpret and enforce them, what the timeliness for approvals of products will be and the overall

effect of the EU MDR on the marketplace. Given the significant additional pre-market and post-market requirements imposed by the EU MDR, the overall impact of these new rules could have a material, adverse effect on the Company's revenues and expenses.

On April 23, 2020, the European Parliament delayed the implementation date of the EU MDR from May 26, 2020 to May 26, 2021 due to COVID-19. We are unable to determine at this time the ultimate impact of the COVID-19 pandemic on the Company's product registrations or development, including whether the FDA and/or comparable foreign agencies will be impacted by the pandemic in ways that will cause delays in clinical trials, quality inspections and/or regulatory approvals. Such delays could result in a material adverse impact on the Company's business operations.

Economic and political instability around the world could adversely affect the ability of hospitals, other customers, suppliers and distributors to access funds or otherwise have available liquidity, which could reduce orders for our products or interrupt our production or distribution or result in a reduction in elective and non-reimbursed operative procedures.

Economic and political instability around the world could adversely affect the ability of hospitals and other customers to access funds to enable them to fund their operating and capital budgets. As a result, hospitals and other customers could reduce budgets or put all or part of their budgets on hold or close their operations, which could have a negative effect on our sales, particularly the sales of capital equipment such as our ultrasonic surgical aspirators, neuromonitors and stereotactic products, or result in a reduction in elective and non-reimbursed procedures. The occurrence of those economic conditions could make it more difficult for us to accurately forecast and plan our future business activities and depending on their severity, could have a material, adverse effect on our business, financial condition and results of operations.

The COVID-19 pandemic has led to disruption and volatility in global financial markets, decreasing economic activity. Many companies have reported experiencing reduced liquidity and uncertainty in their ability to raise capital. If these conditions result in a prolonged economic downturn, the impact to our customers could have a material adverse effect on our results of operations.

Our leverage and debt service obligations could adversely affect our business.

As of December 31, 2019, our total consolidated external debt was approximately $1.3 billion. We may also incur additional indebtedness in the future. Our substantial indebtedness could have material, adverse consequences, including:

- making it more difficult for us to satisfy our financial obligations;
- increasing our vulnerability to adverse economic, regulatory and industry conditions, and placing us at a disadvantage compared to our competitors that are less leveraged;
- limiting our ability to compete and our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and
- limiting our ability to borrow additional funds for working capital, capital expenditures, acquisitions and general corporate or other purposes.

Our debt service obligations will require us to use a portion of our operating cash flow to pay interest and principal on indebtedness instead of for other corporate purposes, including funding future expansion of our business, acquisitions, and ongoing capital expenditures, which could impede our growth. In addition, our ability to comply with, renegotiate or extend the Company's debt obligations will depend on our operating and financial performance, which in turn is subject to prevailing economic conditions and financial, business and other factors beyond our control. Any disruptions in our operations, the financial markets, or the overall economy, including as a result of COVID-19, may adversely affect the availability and cost of credit to us and/or our ability to comply with our existing obligations.

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

Information pertaining to our common stock under the repurchase program can be found in Note 11. Treasury Stock.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Reference is hereby made to the Exhibit Index on page 48.

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:	May 7, 2020	/s/ Peter J. Arduini Peter J. Arduini President and Chief Executive Officer (Principal Executive Officer)
Date:	May 7, 2020	/s/ Carrie L. Anderson Carrie L. Anderson Corporate Vice President and Chief Financial Officer (Principal Financial Officer)
Date:	May 7, 2020	/s/ Jeffrey A. Mosebrook Jeffrey A. Mosebrook Senior Vice President, Corporate Controller (Principal Accounting Officer)

Exhibits

*31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32.2	Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*†101.INS	XBRL Instance Document - 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

* Filed herewith

† The financial information of Integra LifeSciences Holdings Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 filed on May 7, 2020 formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Operations and Comprehensive Income, (ii) the Condensed Consolidated Balance Sheets, (iii) Parenthetical Data to the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements, is furnished electronically herewith.

Exhibit 31.1

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

I, Peter J. Arduini, certify that:

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

Date: May 7, 2020

/s/ Peter J. Arduini

Peter J. Arduini

President and Chief Executive Officer

Exhibit 31.2

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

I, Carrie L. Anderson, certify that:

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

Date: May 7, 2020

/s/ Carrie L. Anderson

Carrie L. Anderson

Corporate Vice President and Chief Financial Officer

Exhibit 32.1

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

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

1. The Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2020 (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: May 7, 2020

/s/ Peter J. Arduini

Peter J. Arduini

President and Chief Executive Officer

Exhibit 32.2

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

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

1. The Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2020 (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: May 7, 2020

/s/ Carrie L. Anderson

Carrie L. Anderson

Corporate Vice President and Chief Financial Officer