

INTEGRA LIFESCIENCES HOLDINGS CORP
Form 10-Q
November 07, 2014

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 September 30, 2014

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 (I.R.S. EMPLOYER
INCORPORATION OR ORGANIZATION) IDENTIFICATION NO.)

311 ENTERPRISE DRIVE 08536
PLAINSBORO, NEW JERSEY
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The number of shares of the registrant's Common Stock, \$0.01 par value, outstanding as of November 5, 2014 was 32,788,086.

Table of Contents

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
INDEX

	Page Number
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2014 and 2013 (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013 (Unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013 (Unaudited)</u>	<u>5</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>39</u>
<u>Item 4. Controls and Procedures</u>	<u>40</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>41</u>
<u>Item 1A. Risk Factors</u>	<u>41</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>45</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>45</u>
Item 5. Other Information	<u>45</u>
<u>Item 6. Exhibits</u>	<u>46</u>
<u>SIGNATURES</u>	<u>47</u>
Exhibit 31.1	
Exhibit 31.2	
Exhibit 32.1	
Exhibit 32.2	
EX-101 INSTANCE DOCUMENT	
EX-101 SCHEMA DOCUMENT	
EX-101 CALCULATION LINKBASE DOCUMENT	

EX-101 DEFINITION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended September		Nine Months Ended September	
	30,	2013	30,	2013
	2014	(As adjusted)*	2014	(As adjusted)*
Total revenue, net	\$229,719	\$213,246	\$676,129	\$615,445
Costs and expenses:				
Cost of goods sold	85,974	81,767	255,333	243,208
Research and development	13,127	13,052	39,439	37,577
Selling, general and administrative	109,896	99,794	333,487	306,037
Intangible asset amortization	2,995	3,036	9,013	9,660
Goodwill impairment charge	—	46,738	—	46,738
Total costs and expenses	211,992	244,387	637,272	643,220
Operating income (loss)	17,727	(31,141)	38,857	(27,775)
Interest income	25	38	145	390
Interest expense	(5,916)	(5,316)	(16,440)	(15,081)
Other income (expense), net	(293)	(263)	142	(1,544)
Income (loss) before income taxes	11,543	(36,682)	22,704	(44,010)
Income tax expense (benefit)	1,736	(6,352)	5,866	(9,172)
Net income (loss)	\$9,807	\$(30,330)	\$16,838	\$(34,838)
Basic net income (loss) per common share	\$0.30	\$(1.09)	\$0.52	\$(1.25)
Diluted net income (loss) per common share	\$0.30	\$(1.09)	\$0.51	\$(1.25)
Weighted average common shares outstanding (See Note 10):				
Basic	32,450	27,896	32,374	27,855
Diluted	32,906	27,896	32,844	27,855
Comprehensive income (loss) (See Note 11)	\$(6,364)	\$(21,640)	\$1,593	\$(30,754)

* See Note 1 of these condensed consolidated financial statements for discussion of the impact of the change in accounting for the medical device excise tax.

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

Table of Contents

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (UNAUDITED)
 (In thousands)

	September 30, 2014	December 31, 2013 (As adjusted)*
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 140,231	\$ 120,614
Trade accounts receivable, net of allowances of \$5,161 and \$6,194	120,741	118,145
Inventories, net	230,455	206,919
Deferred tax assets	44,276	48,616
Prepaid expenses and other current assets	26,886	26,858
Total current assets	562,589	521,152
Property, plant and equipment, net	203,882	200,310
Intangible assets, net	413,906	197,163
Goodwill	349,574	249,764
Deferred tax assets	6,259	15,412
Other assets	9,524	8,338
Total assets	\$ 1,545,734	\$ 1,192,139
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	\$ 45,935	\$ 50,752
Deferred revenue	5,183	4,197
Accrued compensation	36,957	28,079
Accrued expenses and other current liabilities	40,173	36,354
Borrowings under senior credit facility	1,875	—
Total current liabilities	130,123	119,382
Long-term borrowings under senior credit facility	410,000	186,875
Long-term convertible securities	211,095	205,182
Deferred tax liabilities	76,782	2,083
Other liabilities	31,756	12,527
Total liabilities	859,756	526,049
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; no par value; 15,000 authorized shares; none outstanding	—	—
Common stock; \$0.01 par value; 60,000 authorized shares; 41,453 and 41,042 issued at September 30, 2014 and December 31, 2013, respectively	415	410
Additional paid-in capital	769,208	750,918
Treasury stock, at cost; 8,903 shares at September 30, 2014 and December 31, 2013	(367,121)	(367,121)
Accumulated other comprehensive income (loss)	(14,318)	) 927
Retained earnings	297,794	280,956
Total stockholders' equity	685,978	666,090
Total liabilities and stockholders' equity	\$ 1,545,734	\$ 1,192,139

* See Note 1 of these condensed consolidated financial statements for discussion of the impact of the change in accounting for the medical device excise tax.

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

4

Table of Contents

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

	Nine Months Ended September 30,	
	2014	2013 (As adjusted)*
OPERATING ACTIVITIES:		
Net income (loss)	\$16,838	\$(34,838)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	45,105	35,695
Non-cash impairment charges	600	46,738
Deferred income tax (benefit)	(1,510)	) (7,238)
Amortization of debt issuance costs	2,060	1,707
Non-cash interest expense	5,256	4,865
Loss on disposal of property and equipment	505	1,816
(Gain) from change in fair value of contingent consideration	(878)) —
Share-based compensation	11,688	7,594
Excess tax benefits from stock-based compensation arrangements	(1,207)	) (140)
Changes in assets and liabilities, net of business acquisitions:		
Accounts receivable	(3,847)	) 1,440
Inventories	(26,648)	) (28,765)
Prepaid expenses and other current assets	6,628	(694)
Other non-current assets	(437)	) (515)
Accounts payable, accrued expenses and other current liabilities	8,794	14,185
Deferred revenue	1,069	986
Other non-current liabilities	(5,310)	) (1,264)
Net cash provided by operating activities	58,706	41,572
INVESTING ACTIVITIES:		
Purchases of property and equipment	(29,466)	) (37,722)
Sales of property and equipment	—	533
Cash used for business acquisition, net of cash acquired	(235,000)	) (2,980)
Net cash used in investing activities	(264,466)	) (40,169)
FINANCING ACTIVITIES:		
Borrowings under senior credit facility	385,000	30,000
Repayments under senior credit facility	(160,000)	) (10,000)
Payment of debt issuance costs	(3,110)	) (1,053)
Principal payments under capital lease obligations	(370)) —
Proceeds from exercised stock options	8,317	420
Excess tax benefits from stock-based compensation arrangements	1,207	140
Net cash provided by financing activities	231,044	19,507
Effect of exchange rate changes on cash and cash equivalents	(5,667)	) 1,020
Net change in cash and cash equivalents	19,617	21,930
Cash and cash equivalents at beginning of period	120,614	96,938
Cash and cash equivalents at end of period	\$140,231	\$118,868

* See Note 1 of these condensed consolidated financial statements for discussion of the impact of the change in accounting for the medical device excise tax.

Table of Contents

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

6

Table of Contents

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 September 30, 2014 unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the financial position, results of operations and cash flows of the Company. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2013 included in the Company’s Current Report on Form 8-K dated June 16, 2014, which was filed with the Securities and Exchange Commission on June 20, 2014. The December 31, 2013 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- and nine-month periods ended September 30, 2014 are not necessarily indicative of the results to be expected for the entire year.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent liabilities, and the reported amounts of revenues and expenses. Significant estimates affecting amounts reported or disclosed in the consolidated financial statements include allowances for doubtful accounts receivable and sales returns and allowances, net realizable value of inventories, valuation of intangible assets including in-process research and development, 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 pension assets and liabilities, 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.

Certain amounts from the prior year’s financial statements have been reclassified in order to conform to the current year’s presentation.

Change in Accounting Principle

In the first quarter of 2014, the Company changed its method of accounting for the medical device excise tax (“MDET”). Prior to the change the Company recorded the MDET in inventory at the time of the first sale in the United States and then recognized the MDET in cost of goods sold when the medical device was sold to the ultimate customer. Under the new method, the MDET will be recorded in selling, general and administrative expenses in the period the first sale occurs in the United States, which could be an intercompany sale.

The Company believes that this change in accounting principle is preferable as the new method provides a better comparison with the Company’s peers, the majority of which expense the MDET at the time of the first sale in the United States.

The medical device excise tax applies to sales beginning January 1, 2013; therefore, this change affected only 2013 financial results. The cumulative effect of the change in the prior year is included in retained earnings as of December

31, 2013. We have revised the comparative results for the three- and nine-month periods ended September 30, 2013 to reflect the retrospective application of the change in accounting principle had the new method been in effect for all periods, as follows:

7

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

Condensed Consolidated Statements of Operations and Comprehensive Income:

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Originally Reported	Adjustments	As Adjusted	Originally Reported	Adjustments	As Adjusted
	(In thousands, except per share amounts)					
Cost of goods sold	\$84,101	\$(2,334)	\$81,767	\$247,437	\$(4,229)	\$243,208
Selling, general and administrative	95,933	3,861	99,794	295,713	10,324	306,037
Income tax expense (benefit)	(6,605)	253	(6,352)	(8,755)	(417)	(9,172)
Net income (loss)	(28,550)	(1,780)	(30,330)	(29,160)	(5,678)	(34,838)
Basic net income (loss) per common share	\$(1.02)		\$(1.09)	\$(1.05)		\$(1.25)
Diluted net income (loss) per common share	(1.02)		(1.09)	(1.05)		(1.25)
Comprehensive income (loss)	\$(19,860)	\$(1,780)	\$(21,640)	\$(25,076)	\$(5,678)	\$(30,754)

Condensed Consolidated Balance Sheets:

	December 31, 2013		
	Originally Reported	Adjustments	As Adjusted
	(In thousands)		
Inventories	\$213,431	\$(6,512)	\$206,919
Deferred tax assets - current	46,300	2,316	48,616
Prepaid expenses and other current assets	26,752	106	26,858
Retained earnings	285,046	(4,090)	280,956

Condensed Consolidated Statements of Cash Flows:

	Nine Months Ended September 30, 2013		
	Originally Reported	Adjustments	As Adjusted
	(In thousands)		
Net income (loss)	\$(29,160)	\$(5,678)	\$(34,838)
Inventories	(34,855)	6,090	(28,765)
Prepaid and other current assets	(282)	(412)	(694)

Realignment of Segment Revenues

In the first quarter of 2014 the Company realigned certain products between operating segments. The Company did not change its management structure and has determined that the Company still has the same five reportable segments. The impact of this immaterial change on all periods presented is that (i) the revenues and segment profit of the U.S. Extremities segment is lower, and U.S. Instruments and U.S. Spine and Other segments are higher, and (ii) the global revenues of the Orthopedics product category is lower and the Instruments product category is higher. These changes have been reflected in all periods presented. There has been no change in the Company's net revenues reported.

Recently Issued Accounting Standards

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This updated guidance requires an unrecognized tax benefit to be presented in the financial statements as a reduction to a deferred tax asset

for a net operating loss carryforward, similar tax loss, or a tax credit carryforward. To the extent the tax benefit is not available at the reporting date under the governing tax law or if the entity does not intend to use the deferred tax asset for such purpose, the unrecognized tax benefit should be presented as a liability and not combined with deferred tax assets. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2013 for public entities and early adoption is permitted. The amendments are to be applied

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

to all unrecognized tax benefits that exist as of the effective date and may be applied retrospectively to each prior reporting period presented. The standard adoption did not have a material impact on the Company's financial statements.

In April 2014, the FASB issued amendments to guidance for reporting discontinued operations and disposals of components of an entity. The amended guidance requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity's financial results or a business activity classified as held for sale should be reported as discontinued operations. The amendments also expand the disclosure requirements for discontinued operations and add new disclosures for individually significant dispositions that do not qualify as discontinued operations. The amendments are effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2014 (early adoption is permitted only for disposals that have not been previously reported). The implementation of the amended guidance is not expected to have a material impact on our consolidated financial position or results of operations.

In May 2014, the FASB issued Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should: 1) identify the contract(s) with a customer, 2) identify the performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract, and 5) recognize revenue when (or as) the entity satisfies a performance obligation. This update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and early adoption is not permitted. The Company is in the process of evaluating the impact of this standard on its financial statements.

In June 2014, the FASB issued Update No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (Topic 718). The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. This update is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period, and early adoption is permitted. The implementation of the amended guidance is not expected to have a material impact on our consolidated financial position or results of operations.

There are no other recently issued accounting pronouncements that are expected to have a material effect on our financial position, results of operations or cash flows.

2. BUSINESS ACQUISITIONS

Confluent Surgical, Inc.

On January 15, 2014, the Company acquired all outstanding shares of Confluent Surgical, Inc., ("Confluent Surgical") - including its surgical sealant and adhesion barrier product lines - from Covidien Group S.a.r.l, ("Covidien") for an aggregate purchase price of \$255.9 million. The purchase price is comprised of an initial cash payment to Covidien of \$231.0 million upon the closing of the transaction, a separate prepayment of \$4.0 million made under a transitional supply agreement with an affiliate of Covidien, and contingent consideration with an acquisition date fair value of

\$20.9 million. The potential maximum undiscounted contingent consideration of \$30.0 million consists of \$25.0 million upon obtaining certain U.S. governmental approvals and \$5.0 million upon obtaining certain European governmental approvals, both related to the completion of the transition of the Confluent Surgical business.

The transitional supply agreement secures the supply of the acquired products from an affiliate of Covidien until the earlier of (i) the time that the transition of the Confluent Surgical business as discussed above is complete, or (ii) the fifth anniversary of the effective date of the agreement (the agreement also contains an option to extend for another two years by providing written notice at least 180 days prior to the end of the initial five-year period). This agreement contains financial incentives to the affiliate of Covidien for the timely supply of products each fiscal quarter through the third anniversary of the agreement. The prices paid under the supply agreement are essentially flat through the third anniversary of the agreement, and then increase significantly each of the following three years. The Company also entered into a transition services agreement with an affiliate of Covidien at the closing for services such as customer service, accounting and information technology management, clinical and regulatory affairs, manufacturing transition services, and other functions.

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

This acquisition complements the Company's global neurosurgery growth strategy aimed at providing a broader set of solutions for surgical procedures in the head.

The Company adjusted the preliminary purchase price allocation during the quarter ended June 30, 2014 to reduce deferred tax liabilities by \$12.4 million. This adjustment offset goodwill and was the result of the Company analyzing and revising its tax positions in certain jurisdictions. The purchase price allocation is preliminary because the Company has not yet completed the final analysis of the tax accounts. The following summarizes the preliminary allocation of the purchase price as of September 30, 2014 based on the fair value of the assets acquired and liabilities assumed:

	Preliminary Purchase Price Allocation (Dollars in thousands)	
Inventory deposit	\$4,000	
Fixed assets	438	
Intangible assets:		Wtd. Avg. Life
Technology product rights	239,800	20 years
Other	400	Less than 1 year
Deferred tax assets - long term	12	
Goodwill	105,331	
Total assets acquired	349,981	
Contingent supply liability	5,891	
Other	731	
Deferred tax liabilities - long term	87,464	
Net assets acquired	\$255,895	

Subsequent to the acquisition date, a regulatory event occurred that resulted in the full-impairment of one of the acquired technology product rights of \$0.6 million. This event was not known, or knowable, at the time of the acquisition and therefore the impairment has been included in the Company's cost of sales.

The Company accounted for the contingent supply liability by recording its fair value as a liability on the date of the acquisition based on a discounted cash-flow model. This contingent supply liability relates to contractual quarterly incentive payments that will be made to an affiliate of Covidien if certain supply minimums under the transitional supply agreement are met.

The Company accounted for the contingent consideration by recording its fair value as a liability on the date of the acquisition. The contingent consideration relates to the Company's obtaining certain U.S. and European regulatory approvals. At the date of the acquisition, both of these milestones were valued using a discount rate of 2.2%, which is equivalent to the cost of debt for the estimated time horizon, and an overall probability of occurring of 95%.

Accordingly, on January 15, 2014 the Company recorded a \$20.9 million liability representing the initial fair value estimate of the probability weighted contingent consideration that management believes will be paid between early 2017 and late 2018. Depending on the expected timing of the estimated payments, the acquisition date fair value of the probability adjusted payments could have been \$0.3 million higher or \$0.4 million lower. These fair value measurements were based on significant inputs not observed in the market and thus represented a Level 3 measurement. The contingent consideration is re-measured to fair value at each reporting date until the contingency is resolved, and those changes in fair value are recognized in earnings.

The goodwill recorded in connection with this acquisition is based on (i) expected cost savings, operating synergies and other benefits expected to result from the combined operations, (ii) the value of the going-concern element of Confluent Surgical's existing business (that is, the higher rate of return on the assembled net assets versus if the Company had acquired all of the net assets separately), and (iii) intangible assets that do not qualify for separate recognition such as Confluent Surgical's assembled workforce. The goodwill acquired will not be deductible for tax

purposes.

Contingent consideration

The fair value of contingent consideration during the nine-months ended September 30, 2014 was (i) increased to reflect current period acquisitions, and the change in the time value of money during the period, and (ii) decreased because the Company believes that it is no longer probable that it will reach certain sales-based milestone targets. A reconciliation of the opening balances to the closing balances of these Level 3 measurements is as follows (in thousands):

10

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

		Location in Statement of Operations
Balance as of January 1, 2014	\$1,227	
Contingent consideration from Confluent Surgical acquisition	20,895	
Loss/(gain) from increase/(decrease) in fair value of contingent consideration liabilities	(878	) Selling, general and administrative
Fair value at September 30, 2014	\$21,244	

The entire contingent consideration balance was included in Other liabilities at September 30, 2014 and December 31, 2013.

Pro Forma Results

The following unaudited pro forma financial information summarizes the results of operations for the three and nine months ended September 30, 2013 as if the Confluent Surgical acquisition completed by the Company during 2014 had been completed as of January 1, 2013. The pro forma results are based upon certain assumptions and estimates, and they give effect to actual operating results prior to the acquisition and adjustments to reflect (i) the change in interest expense, depreciation expense, and intangible asset amortization, (ii) certain external expenses related to the acquisition as if they were incurred on January 1, 2013 that will not be recurring in the post-acquisition periods, and (iii) income taxes on the aforementioned adjustments at the Company's statutory rate. No effect has been given to other cost reductions or operating synergies. As a result, these pro forma results do not necessarily represent results that would have occurred if the acquisition had taken place on the basis assumed above, nor are they indicative of the results of future combined operations.

The pro forma impact of the Confluent Surgical pre-acquisition results were not material to the 2014 consolidated operating results of the Company; therefore the pro forma impact on the 2014 results of the Company has not been presented below. The pro forma results below also incorporate the impact of the change in accounting for the MDET on the 2013 results which is discussed in Note 1.

	Three Months Ended September 30, 2013 (In thousands)	Nine Months Ended September 30, 2013
Total revenue	\$229,645	\$664,642
Net income (loss)	\$(28,324	) \$(30,356

3. INVENTORIES

Inventories, net consisted of the following:

	September 30, 2014 (In thousands)	December 31, 2013 (As adjusted)*
Finished goods	\$142,342	\$123,786
Work in process	50,864	47,403
Raw materials	37,249	35,730
	\$230,455	\$206,919

* See Note 1 of these condensed consolidated financial statements for discussion of the impact of the change in accounting for the medical device excise tax.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company reviews goodwill for impairment annually as of July 31 and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. In reviewing goodwill for impairment, an Company has the option - for any or all of its reporting units that carry goodwill - to first assess qualitative factors to determine whether the existence of events

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

or circumstances leads to a determination that it is more likely than not (i.e. greater than 50%) that the estimated fair value of a reporting unit is less than its carrying amount. If the Company elects to perform a qualitative assessment and determines that an impairment is more likely than not, the Company is then required to perform the two-step quantitative impairment test, otherwise no further analysis is required. The Company also may elect not to perform the qualitative assessment and, instead, proceed directly to step one of the two-step quantitative impairment test. The ultimate outcome of the goodwill impairment review for a reporting unit should be the same whether the Company chooses to perform the qualitative assessment or proceeds directly to the two-step quantitative impairment test. The most recent two-step quantitative impairment test completed for each reporting unit was as of July 31, 2013 (the "Base Valuation"), which resulted in the full impairment of goodwill held by the U.S. Spine reporting unit. At July 31, 2014 the following reporting units carried goodwill: U.S. Neurosurgery, U.S. Instruments, U.S. Extremities, Private Label, EMEA and LAPAC.

At July 31, 2014, management performed a comprehensive analysis of various events and circumstances (i.e. factors) that would likely affect the estimated fair value of all of its reporting units that carried goodwill at that date, and whether those factors would have a positive or negative impact on the fair value of the reporting unit when compared to the Base Valuation. Management considered Company-wide factors such as, but not limited to (i) macroeconomic conditions, (ii) industry conditions, (iii) the Company's overall financial prospects and market capitalization, (iv) the competitive environment, (v) regulatory and political developments, and (vi) any changes in the Company's weighted average cost of capital ("WACC"). Management also considered reporting unit specific factors such as, but not limited to (i) changes in the market for products and services, (ii) strategic business changes, (iii) reporting unit financial performance, (iv) management's most recent prospective revenue estimates, (v) the prospective cost burden of the reporting units, (vi) changes in a reporting unit's management, (vii) how any change in the Company's WACC above might impact the reporting unit specific WACC, and (viii) the suitability of the risk premiums on the reporting unit specific WACC. These factors are then classified by the type of impact they would have on the estimated fair value using positive, neutral, and adverse categories based on current business conditions. The Company then performs an assessment of the level of impact that a particular factor would have on the estimated fair value using high, medium, and low weighting. Finally, management considered all of the factors above in the context of the results of the Base Valuation, and whether it is more likely than not that the carrying value of any of the reporting units that have goodwill exceeds their individual fair value.

Management concluded that at July 31, 2014, based on the totality of information available for each reporting unit that carried goodwill, it was more likely than not that the estimated fair values of the U.S. Neurosurgery, U.S. Extremities, Private Label, EMEA and LAPAC reporting units were greater than their carrying values, and as such, no further analysis was required for those reporting units. The Company proceeded to step one of the quantitative goodwill impairment test for the U.S. Instruments reporting unit, primarily as a result of recent declines in that reporting unit's revenues.

To derive the fair value of the U.S. Instruments reporting unit, as required in step one of the impairment test, the Company used the income approach, specifically the discounted cash flow ("DCF") method, which incorporates significant estimates and assumptions made by management which, by their nature, are characterized by uncertainty. Inputs used to fair value the Company's reporting units are considered inputs of the fair value hierarchy. For Level 3 measurements, significant increases or decreases in long-term growth rates or discount rates in isolation or in combination could result in a significantly lower or higher fair value measurement. The key assumptions impacting the valuation included:

The reporting unit's financial projections, which are based on management's assessment of regional and macroeconomic variables, industry trends and market opportunities, and the Company's strategic objectives and future growth plans.

The projected terminal value for the reporting unit, which represents the present value of projected cash flows beyond the last period in the discounted cash flow analysis. The terminal value reflects the Company's assumptions related to long-term growth rates and profitability, which are based on several factors, including local and macroeconomic variables, market opportunities, and future growth plans.

The discount rate used to measure the present value of the projected future cash flows is set using a weighted-average cost of capital method that considers market and industry data as well as the Company's specific risk factors that are likely to be considered by a market participant. The weighted-average cost of capital is the Company's estimate of the overall after-tax rate of return required by equity and debt holders of a business enterprise.

The Company determined, after performing the Step-1 fair value analysis above, that the U.S. Instruments reporting unit's fair value was in excess of its carrying value; therefore, it was not necessary to proceed to Step-2 of the goodwill impairment test for the U.S. Instruments reporting unit.

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

Changes in the carrying amount of goodwill for the nine months ended September 30, 2014 were as follows:

	U.S. Neurosurgery	U.S. Instruments	U.S. Extremities	U.S. Spine and Other	International	Total
	(In thousands)					
Goodwill, gross	\$95,165	\$58,033	\$61,079	\$56,325	\$25,900	\$296,502
Accumulated impairment losses	—	—	—	(46,738)	—	(46,738)
Goodwill at December 31, 2013	95,165	58,033	61,079	9,587	25,900	249,764
Confluent Surgical acquisition	95,373	—	—	—	9,958	105,331
Foreign currency translation	(2,966)	(901)	(948)	(149)	(557)	(5,521)
Goodwill at September 30, 2014	\$187,572	\$57,132	\$60,131	\$9,438	\$35,301	\$349,574

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

	September 30, 2014			
	Weighted Average Life	Cost	Accumulated Amortization	Net
	(Dollars in thousands)			
Completed technology	18 years	\$320,270	\$(58,458)	\$261,812
Customer relationships	12 years	145,658	(85,762)	59,896
Trademarks/brand names	31 years	33,316	(15,766)	17,550
Trademarks/brand names	Indefinite	48,484	—	48,484
Supplier relationships	27 years	34,721	(10,452)	24,269
All other ⁽¹⁾	4 years	4,620	(2,725)	1,895
		\$587,069	\$(173,163)	\$413,906

	December 31, 2013			
	Weighted Average Life	Cost	Accumulated Amortization	Net
	(Dollars in thousands)			
Completed technology	12 years	\$81,238	\$(45,343)	\$35,895
Customer relationships	12 years	146,627	(79,624)	67,003
Trademarks/brand names	31 years	33,703	(15,648)	18,055
Trademarks/brand names	Indefinite	48,484	—	48,484
Supplier relationships	27 years	34,721	(9,305)	25,416
All other ⁽¹⁾	5 years	4,251	(1,941)	2,310
		\$349,024	\$(151,861)	\$197,163

⁽¹⁾ At September 30, 2014 and December 31, 2013, all other included in-process research and development ("IPR&D") of \$1.4 million in both periods, which was indefinite-lived.

During the nine months ended September 30, 2014, the Company recorded an impairment charge of \$0.6 million in cost of goods sold related to technology assets acquired from Confluent Surgical that will no longer be sold resulting from a regulatory event that occurred after the acquisition date.

Based on quarter-end exchange rates, annual amortization expense (including amounts reported in cost of product revenues, but excluding any possible future amortization associated with acquired in-process research and development) is expected to approximate \$31.2 million in 2014, \$28.7 million in 2015, \$26.6 million in 2016, \$24.5 million in 2017 and \$24.1 million in 2018. Identifiable intangible assets are initially recorded at fair market value at the time of acquisition using an income or cost approach.

INTEGRA LIFESCIENCES HOLDINGS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. DEBT

Amended and Restated Senior Credit Agreement

On July 2, 2014, the Company entered into an amended and restated credit agreement (the "Senior Credit Facility") with a syndicate of lending banks, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, Wells Fargo Bank, National Association, as Syndication Agent and HSBC Bank USA, National Association, Royal Bank of Canada, Citizens Bank, National Association, DNB Capital LLC, Credit Agricole-Corporate and Investment Bank and TD Bank, N.A., as Co-Documentation Agents. The Company's Senior Credit Facility was originally amended and restated on August 10, 2010, and that agreement was then amended on June 8, 2011, May 11, 2012, and June 21, 2013, as previously disclosed.

The 2014 amended and restated Senior Credit Facility created an aggregate principal amount of up to \$900.0 million available to the Company through the following facilities:

- i. a \$750.0 million revolving credit facility (increased from \$600.0 million), which includes a \$60.0 million sublimit for the issuance of standby letters of credit and a \$60.0 million sublimit for swingline loans, and
- ii. a \$150.0 million term loan facility.

The Senior Credit Facility allows the Company to further increase the size of either the revolving credit facility or the term loan facility, or a combination thereof, by an aggregate of \$200.0 million with additional commitments. The July 2014 amended and restated Senior Credit Facility extended the maturity date of the prior facility from June 8, 2016 to July 2, 2019.

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

- 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%, or
 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 less cash in excess of \$40.0 million that is not subject to any restriction of the use or investment thereof to (b) consolidated EBITDA) at the time of the applicable borrowing.

The Company will also pay an annual commitment fee (ranging from 0.15% to 0.30%, based on the Company's consolidated total leverage ratio) on the daily amount by which the revolving credit facility exceeds the outstanding loans and letters of credit under the 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 September 30, 2014 the Company was in compliance with all such covenants. In connection with the modification of the 2014 amendment and restatement of the Senior Credit Facility the Company capitalized \$3.1 million of incremental financing costs, and expensed \$0.3 million of previously capitalized financing costs.

On July 2, 2014, the Company borrowed \$422.0 million under the Senior Credit Facility consisting of a \$150.0 million term loan and \$272.0 million under its revolving credit facility. The Company used the funds to repay the balance of its previous Senior Credit Facility. The outstanding borrowings have one, two, three, six months, or, if available, twelve months interest periods.

At September 30, 2014 and December 31, 2013, there was \$261.9 million and \$186.9 million outstanding under the revolving credit component of the Senior Credit Facility at a weighted average interest rate of 1.7% and 2.0%, respectively. At September 30, 2014, there was approximately \$488.1 million available for borrowing under the

Senior Credit Facility. The Company considers the balance to be long-term in nature based on its current intent and ability to repay the borrowing outside of the next twelve-month period.

At September 30, 2014 there was \$150.0 million outstanding under the term loan component of the Senior Credit Facility at a weighted average interest rate of 1.7%. Contractual repayments of the term loan do not begin until September 30, 2015 and are due as follows:

14

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

Year Ended December 31,	Principal Repayment (In thousands)
2015	\$3,750
2016	9,375
2017	13,125
2018	15,000
2019	108,750
	\$150,000

The fair value of outstanding borrowings of the Senior Credit Facility's revolving credit facility and term loan components at September 30, 2014 was approximately \$241.4 million and \$139.1 million, respectively. 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.

2016 Convertible Senior Notes

On June 15, 2011, the Company issued \$230.0 million aggregate principal amount of its 1.625% Convertible Senior Notes due in 2016 (the "2016 Notes"). The 2016 Notes mature on December 15, 2016, and bear interest at a rate of 1.625% per annum payable semi-annually in arrears on December 15 and June 15 of each year. The portion of the debt proceeds that was classified as equity at the time of the offering was \$43.2 million, an equivalent of that amount is being amortized to interest expense using the effective interest method through December 2016. The effective interest rate implicit in the liability component is 5.6%.

At September 30, 2014, the carrying amount of the liability component was \$211.1 million, the remaining unamortized discount was \$18.9 million, and the principal amount outstanding was \$230.0 million. The fair value of the 2016 Notes at September 30, 2014 was approximately \$247.7 million. At December 31, 2013, the carrying amount of the liability component was \$205.2 million, the remaining unamortized discount was \$24.8 million and the principal amount outstanding was \$230.0 million. The fair value of the liability of the 2016 Notes was determined 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.

The 2016 Notes are senior, unsecured obligations of the Company, and are convertible into cash and, if applicable, shares of its common stock based on an initial conversion rate, subject to adjustment of 17.4092 shares per \$1,000 principal amount of 2016 Notes (which represents an initial conversion price of approximately \$57.44 per share). The Company will satisfy any conversion of the 2016 Notes with cash up to the principal amount of the 2016 Notes pursuant to the net share settlement mechanism set forth in the indenture and, with respect to any excess conversion value, with shares of the Company's common stock. The 2016 Notes are convertible only in the following circumstances: (1) if the closing sale price of the Company's common stock exceeds 150% of the conversion price during a period as defined in the indenture; (2) if the average trading price per \$1,000 principal amount of the 2016 Notes is less than or equal to 98% of the average conversion value of the 2016 Notes during a period as defined in the indenture; (3) at any time on or after June 15, 2016; or (4) if specified corporate transactions occur. The issue price of the 2016 Notes was equal to their face amount, which is also the amount holders are entitled to receive at maturity if the 2016 Notes are not converted. As of September 30, 2014, none of these conditions existed with respect to the 2016 Notes and as a result, the 2016 Notes are classified as long term.

In connection with the issuance of the 2016 Notes, the Company entered into call transactions and warrant transactions, primarily with affiliates of the initial purchasers of such notes (the "hedge participants"). The initial strike price of the call transaction is approximately \$57.44 per share, subject to customary anti-dilution adjustments. The initial strike price of the warrant transaction is approximately \$70.05 per share, subject to customary anti-dilution adjustments.

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

Convertible Note Interest

The interest expense components of the Company's convertible notes are as follows (net of capitalized interest amounts):

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	2013	2013	2013	2013
	(In thousands)			
2016 Notes:				
Amortization of the discount on the liability component	\$1,822	\$1,633	\$5,256	\$4,865
Cash interest related to the contractual interest coupon	853	807	2,491	2,438
Total	\$2,675	\$2,440	\$7,747	\$7,303

6. DERIVATIVE INSTRUMENTS

Interest Rate Hedging

The Company's interest rate risk relates to U.S. dollar denominated variable LIBOR interest rate borrowings. The Company uses an interest rate swap derivative instrument entered into on August 10, 2010 with an effective date of December 31, 2010 to manage its earnings and cash flow exposure to changes in interest rates by converting a portion of its floating-rate debt into fixed-rate debt beginning on December 31, 2010. This interest rate swap expires on August 10, 2015.

The Company designates this derivative instrument as a cash flow hedge. The Company records the effective portion of any change in the fair value of a derivative instrument designated as a cash flow hedge as unrealized gains or losses in accumulated other comprehensive income ("AOCI"), net of tax, until the hedged item affects earnings, at which point the effective portion of any gain or loss will be 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 amount of any gain or loss on the related cash flow hedge to interest expense at that time.

The Company expects that approximately \$1.3 million of pre-tax losses recorded as net in AOCI related to the interest rate hedge could be reclassified to earnings within the next twelve months.

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 records the effective portion of any change in the fair value of foreign currency cash flow hedges in AOCI, net of tax, until the hedged item affects earnings. Once the related hedged item affects earnings, the Company reclassifies the effective portion of any related unrealized gain or loss on the foreign currency cash flow hedge 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.

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

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.

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

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 value of the foreign currency forward exchange contracts related to inventory purchases is determined by comparing the forward rate as of the period end and the settlement rate specified in each contract. The fair value of the interest rate swaps was developed using a market approach based on publicly available market yield curves and the terms of the related swap. The Company performs ongoing assessments of counterparty credit risk.

The following table summarizes the fair value and presentation for derivatives designated as hedging instruments in the condensed consolidated balance sheets as of September 30, 2014 and December 31, 2013:

Location on Balance Sheet ⁽¹⁾ :	Fair Value as of	
	September 30, 2014	December 31, 2013
	(In thousands)	
Derivatives designated as hedges — Liabilities:		
Interest rate swap — Accrued expenses and other current liabilities ⁽²⁾	\$ 1,289	\$ 1,676
Interest rate swap — Other liabilities ⁽²⁾	—	763
Total Derivatives designated as hedges — Liabilities	\$ 1,289	\$ 2,439

(1) The Company classifies derivative assets and liabilities as current based on the cash flows expected to be incurred within the following 12 months.

At September 30, 2014 and December 31, 2013, the notional amount related to the Company's sole interest rate

(2) swap was \$101.3 million and \$112.5 million, respectively. In the next twelve months, the Company expects to reduce the notional amount by the entire \$101.3 million.

The following presents the effect of derivative instruments designated as cash flow hedges on the accompanying condensed consolidated statements of operations during the three and nine months ended September 30, 2014 and 2013:

	Amount of		Amount of Gain (Loss)		Balance in AOCI End of Quarter	Location in Statements of Operations
	Balance in AOCI Beginning of Quarter	Gain (Loss) Recognized in AOCI- Effective Portion	Reclassified from AOCI into Earnings-Effective Portion			
(In thousands)						
Three Months Ended September 30, 2014						
Interest rate swap	\$ (1,713)	\$ (9)	\$ (433)	\$ (1,289)		Interest (expense)
Three Months Ended September 30, 2013						
Forward currency forward contracts	\$ 162	\$ (19)	\$ 110	\$ 33		Cost of goods sold
Interest rate swap	(3,030)	(258)	(483)	(2,805)		Interest (expense)
	\$ (2,868)	\$ (277)	\$ (373)	\$ (2,772)		

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

	Balance in AOCI Beginning of Year	Amount of Gain (Loss) Recognized in AOCI- Effective Portion	Amount of Gain (Loss) Reclassified from AOCI into Earnings-Effective Portion	Balance in AOCI End of Quarter	Location in Statements of Operations
(In thousands)					
Nine Months Ended September 30, 2014					
Interest rate swap	(2,439)	(179)	(1,329)	(1,289)	Interest (expense)
Nine Months Ended September 30, 2013					
Forward currency forward contracts	(34)	142	75	\$ 33	Cost of goods sold
Interest rate swap	(4,125)	(159)	(1,479)	(2,805)	Interest (expense)
	\$ (4,159)	\$ (17)	\$ (1,404)	\$ (2,772)	

The Company recognized no gains or losses resulting from ineffectiveness of cash flow hedges during the nine months ended September 30, 2014 and 2013.

7. STOCK-BASED COMPENSATION

As of September 30, 2014, the Company had stock options, restricted stock awards, performance stock units, contract stock awards and restricted stock unit awards outstanding under three plans, the 2000 Equity Incentive Plan (the "2000 Plan"), 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, directors, and employees, and generally expire six years from the grant date for employees, and from six to ten years for directors and certain executive officers. 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 September 30, 2014, there were approximately \$1.7 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 two years. There were approximately 80,991 stock options granted during the nine months ended September 30, 2014.

Awards of Restricted Stock, Performance Stock and Contract Stock

Performance stock, restricted stock and contract stock awards generally have requisite service periods of three years. Performance stock units are subject to graded vesting conditions and the Company expenses their fair value over the requisite service period. The Company expenses the fair value of restricted stock and contract stock awards on a straight-line basis over the vesting period or requisite service period, whichever is shorter. As of September 30, 2014, there were approximately \$14.7 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 255,407 restricted stock awards/stock units and 90,025 performance shares during the nine months

ended September 30, 2014.

During the three months ended June 30, 2014, the Company recorded an incremental stock compensation expense of \$3.0 million in connection with the accelerated vesting of grants due to the amendment of an executive employment contract. The expense, which was comprised of both restricted shares and performance shares, was measured based on the difference between (i) the fair value of the awards on the date of modification and (ii) previously recognized compensation expense for such awards. The expense related to the acceleration of performance stock, included in the compensation expense amount above, was recorded in its entirety on the date of modification as the Company believes the performance obligation will be satisfied.

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

18

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

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.

8. TREASURY STOCK

On October 23, 2012, the Company's Board of Directors authorized a repurchase plan of up to \$75.0 million of its outstanding common stock through December 2014. The Company has not repurchased any of its outstanding shares of common stock during the nine month periods ended September 30, 2014 and 2013. As of September 30, 2014, there remained \$75.0 million available for repurchases under this authorization.

See Note 14 - Subsequent Events regarding changes to this share repurchase plan made after September 30, 2014.

9. INCOME TAXES

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

	Three Months Ended		Nine Months Ended		
	September 30, 2014	2013 (As adjusted)*	September 30, 2014	2013 (As adjusted)*	
Reported tax rate	15.0	% 17.3	% 25.8	% 20.8	%

* See Note 1 of these condensed consolidated financial statements for discussion of the impact of the change in accounting for the medical device excise tax.

The Company's effective income tax rates for the three months ended September 30, 2014 and 2013 were 15.0% and 17.3%, respectively. The primary drivers of the overall tax rate for the three months ended September 30, 2014 were a tax benefit of \$1.6 million that was recognized for the release of uncertain tax positions due to the expiration of statute of limitations, partially offset by an expense of \$0.5 million relating to a state income tax audit settlement and an expense of \$0.3 million relating to foreign returns filed during the quarter. The primary drivers of the overall tax rate for the three months ended September 30, 2013 were the goodwill impairment charge that was partially deductible for tax purposes, partially offset by a benefit of \$2.3 million for the release of uncertain tax positions and related interest due to the expiration of the statute of limitations.

The Company's effective income tax rates for the nine months ended September 30, 2014 and 2013 were 25.8% and 20.8%, respectively. The primary drivers of the income tax rate for the nine months ended September 30, 2014 were an expense of \$1.2 million relating to state income tax audit settlements, an expense of \$0.4 million for a foreign income tax audit settlement, and an expense of \$0.3 million from a change in state filing positions; offset by a benefit of \$2.0 million for the release of uncertain tax positions and related interest due to the expiration of statute of limitations. The primary drivers of the income tax rate for the nine months ended September 30, 2013 were a benefit of \$3.5 million for the release of uncertain tax positions, a benefit of \$0.5 million relating to the granting of Irish research credits for 2011 and 2012, and a benefit of \$0.9 million due to the extension of the Federal research credit, enacted through the American Taxpayer Relief Act. These benefits in 2013 were recorded against a book loss, relating primarily to goodwill impairment; accordingly, they had the effect of increasing the effective tax rate in that period.

The Company expects its effective income tax rate for the full year to be approximately 23% to 24%, resulting largely from the release of uncertain tax positions, domestic and foreign audit settlements, as well as the jurisdictional mix of pretax income in U.S.-based operations relative to foreign operations. This estimate could be revised in the future as

additional information is presented to the Company.

19

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

10. NET INCOME (LOSS) PER SHARE

Basic and diluted net income (loss) per share was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except per share amounts)			
	(As adjusted)*		(As adjusted)*	
Basic net income (loss) per share:				
Net income (loss)	\$9,807	\$(30,330)	\$16,838	\$(34,838)
Weighted average common shares outstanding	32,450	27,896	32,374	27,855
Basic net income (loss) per common share	\$0.30	\$(1.09)	\$0.52	\$(1.25)
Diluted net income (loss) per share:				
Net income (loss)	\$9,807	\$(30,330)	\$16,838	\$(34,838)
Weighted average common shares outstanding — Basic	32,450	27,896	32,374	27,855
Effect of dilutive securities:				
Stock options and restricted stock	456	—	470	—
Weighted average common shares for diluted earnings per share	32,906	27,896	32,844	27,855
Diluted net income (loss) per common share	\$0.30	\$(1.09)	\$0.51	\$(1.25)

* See Note 1 of these condensed consolidated financial statements for discussion of the impact of the change in accounting for the medical device excise tax.

At September 30, 2014 and 2013, the Company had 1.4 million and 1.7 million of outstanding stock options, respectively. The Company also has warrants outstanding relating to its 2016 Notes at September 30, 2014 and 2013 and the Company's 2016 Notes are convertible to common shares in certain circumstances (see Note 5). Stock options, restricted stock, warrants and the excess conversion value of the 2016 Notes are included in the diluted earnings per share calculation using the treasury stock method, unless the effect of including such items would be anti-dilutive.

For the three months ended September 30, 2014 and 2013, 0.2 million of anti-dilutive stock options were excluded from the diluted earnings per share calculation. For the nine months ended September 30, 2014, 0.2 million of anti-dilutive stock options were excluded. For the three and nine months ended September 30, 2013, all stock options, and all restricted stock were excluded from the diluted earnings per share calculation using the treasury stock method because of their anti-dilutive effect. The effect of outstanding warrants were anti-dilutive because the strike price of the warrants exceeded the Company's average stock price for the periods, and the potential excess conversion value of the 2016 Notes were anti-dilutive because the conversion price exceeded the Company's stock price; therefore, these amounts have been excluded from the diluted earnings per share calculation in all periods presented.

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

11. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)		(As adjusted)*	
Net income (loss)	\$9,807	\$(30,330)	\$16,838	\$(34,838)
Foreign currency translation adjustment	(16,537)	8,711	(15,952)	3,288
Change in unrealized gain on derivatives, net of tax	241	47	655	794
Pension liability adjustment, net of tax	125	(68)	52	2
Comprehensive income (loss)	\$(6,364)	\$(21,640)	\$1,593	\$(30,754)

* See Note 1 of these condensed consolidated financial statements for discussion of the impact of the change in accounting for the medical device excise tax.

Changes in Accumulated Other Comprehensive Income (Loss) by component between December 31, 2013 and September 30, 2014 are presented in the table below, net of tax:

	Gains and (Losses) on Cash Flow Hedges	Defined Benefit Pension Items	Foreign Currency Items	Total
	(In thousands)			
Beginning balance	\$(1,390)	\$(2,287)	\$4,604	\$927
Other comprehensive income (loss) before reclassifications	(102)	52	(15,952)	(16,002)
Amounts reclassified from accumulated other comprehensive income	757	—	—	757
Net current-period other comprehensive income (loss)	655	52	(15,952)	(15,245)
Ending balance	\$(735)	\$(2,235)	\$(11,348)	\$(14,318)

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

The reclassification adjustments out of Accumulated Other Comprehensive Income (Loss) during the three and nine months ended September 30, 2014 were as follows:

Three Months Ended September 30, 2014

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (In thousands)	Affected Line Item in the Statement where Net Income (Loss) is Presented
Gains and losses on cash flow hedges		
Interest rate swap	\$ (433)	) Interest (expense)
	192	) Tax (expense) or benefit
	\$ (241)	) Net of tax

Nine Months Ended September 30, 2014

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (In thousands)	Affected Line Item in the Statement where Net Income (Loss) is Presented
Gains and losses on cash flow hedges		
Interest rate swap	\$ (1,328)	) Interest (expense)
	571	) Tax (expense) or benefit
	\$ (757)	) Net of tax

12. SEGMENT AND GEOGRAPHIC INFORMATION

The Company internally manages and reports the results of its businesses to its chief operating decision maker through five reportable segments. The five reportable segments and a description of their activities are described below:

The U.S. Neurosurgery segment sells a full line of products specifically for neurosurgery and critical care such as tissue ablation equipment, dural repair products, cerebral spinal fluid management devices, intracranial monitoring equipment, and cranial stabilization equipment.

The U.S. Instruments business sells more than 60,000 instrument patterns and surgical and lighting products to hospitals, surgery centers, and dental, podiatry, and veterinary offices.

The U.S. Extremities segment includes the U.S. Extremity reconstruction business, which 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.

The U.S. Spine and Other segment includes (i) the U.S. Spine business, which focuses on spinal fusion, spinal implants, and deformity correction, together with bone graft substitutes and other related medical devices that are used to enhance the repair and regeneration of bone in various types of orthopedic surgical procedures, and (ii) the Private Label business, which sells the Company's regenerative medicine and other products to strategic partners.

The International segment sells similar products to those discussed above, but are managed through the following geographies: (i) Europe, Middle East and Africa, and (ii) Central/South America, Asia-Pacific and Canada.

The Corporate and other category includes: (i) various legal, finance, information systems, executive, and human resource functions, (ii) brand management, (iii) share-based compensation costs, and (iv) costs related to procurement, manufacturing operations and logistics for the Company's entire organization.

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 reportable segment for the three and nine months ended September 30, 2014 and 2013 are as follows:

22

INTEGRA LIFESCIENCES HOLDINGS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Three Months Ended September		Nine Months Ended September	
	30, 2014	2013	30, 2014	2013
	(In thousands)		(In thousands)	
		(As adjusted)*		(As adjusted)*
Segment Net Sales				
U.S. Neurosurgery	\$62,323	\$45,114	\$177,265	\$125,877
U.S. Instruments	39,853	43,004	116,078	121,900
U.S. Extremities	36,746	31,831	103,083	93,802
U.S. Spine and Other	42,015	47,408	128,168	134,889
International	48,782	45,889	151,535	138,977
Total revenues	\$229,719	\$213,246	\$676,129	\$615,445
Segment Profit				
U.S. Neurosurgery	\$35,889	\$23,080	\$94,247	\$59,770
U.S. Instruments	12,416	13,713	34,728	35,963
U.S. Extremities	14,983	13,117	40,907	34,613
U.S. Spine and Other	13,108	(31,043)	39,801	(4,844)
International	15,170	14,693	49,549	41,697
Segment profit	91,566	33,560	259,232	167,199
Amortization	(2,995)	(3,036)	(9,013)	(9,660)
Corporate and other	(70,844)	(61,665)	(211,362)	(185,314)
Operating income (loss)	\$17,727	\$(31,141)	\$38,857	\$(27,775)

* See Note 1 of these condensed consolidated financial statements for discussion of the impact of the change in accounting for the medical device excise tax.

Certain 2013 segment revenues and the related impact on segment profit above have been reclassified in order to conform with the current year's presentation.

Revenue by major product category consisted of the following:

	Three Months Ended September		Nine Months Ended September	
	30, 2014	2013	30, 2014	2013
	(In thousands)		(In thousands)	
Orthopedics	\$91,650	\$92,125	\$271,958	\$271,862
Neurosurgery	92,089	72,639	269,717	204,283
Instruments	45,980	48,482	134,454	139,300
Total Revenues	\$229,719	\$213,246	\$676,129	\$615,445

The Company attributes revenues to geographic areas based on the location of the customer. There are certain revenues managed by the various U.S. segments that are generated from non-U.S. customers and therefore are included in Europe and the Rest of World revenues below. Total revenue by major geographic area consisted of the following:

	Three Months Ended September		Nine Months Ended September	
	30, 2014	2013	30, 2014	2013
	(In thousands)		(In thousands)	
United States	\$180,101	\$166,555	\$522,288	\$473,740
Europe	23,850	21,543	75,026	68,936
Rest of World	25,768	25,148	78,815	72,769

Total Revenues	\$229,719	\$213,246	\$676,129	\$615,445
----------------	-----------	-----------	-----------	-----------

INTEGRA LIFESCIENCES HOLDINGS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. 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 we sell. 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 our financial condition. However, it is possible that the Company's results of operations, financial position and cash flows in a particular period could be materially affected by these contingencies.

On June 6, 2012, the Company was contacted by the United States Attorney's Office for the District of New Jersey regarding the activities of sales representatives in a single region within our Extremities Reconstruction division. The U.S. Attorney's Office was investigating the activities of three sales representatives, one of whom was a supervisor until terminated by the Company for failure to cooperate with this investigation. The activities at issue pertained to alleged improper billing of products for extremities indications. On August 12, 2014, the United States Attorney for the District of New Jersey announced that two former Integra sales representatives, one of whom was a supervisor, entered guilty pleas as a result of the investigation. According to the United States Attorney for the District of New Jersey, these individuals acted without the awareness of the Company. The Company cooperated with the U.S. Attorney's Office on a voluntary basis throughout the investigation and has reimbursed affected customers. The reimbursements were made in historical periods and were not material. The Company was not a subject or target of the investigation, and believes the investigation to now be concluded.

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.

14. SUBSEQUENT EVENTS

Acquisition of MicroFrance

On October 27, 2014, the Company completed a stock and asset purchase agreement (the "Purchase Agreement") with Medtronic, Inc. ("Medtronic"), a Minnesota corporation and Medtronic Xomed Instrumentation, SAS ("MicroFrance"), a French corporation and an indirect wholly-owned subsidiary of Medtronic, for the acquisition by the Company of all of the capital stock of MicroFrance and certain assets of Medtronic and its affiliates related to MicroFrance's business. MicroFrance is engaged in the business of developing, manufacturing, marketing and distributing reusable handheld surgical instrument products, which are specialized for ear, nose and throat and laparoscopic procedures and providing related services.

Under the terms of the Purchase Agreement, the Company paid Medtronic a net purchase price of approximately \$60.0 million for the stock and assets acquired subject to a purchase price adjustment for certain working capital changes. The Company also entered into a distribution agreement, an independent sales representative agreement, and a supply agreement with an affiliate of Medtronic at the closing. In addition, the Company entered into a transition services agreement with Medtronic at the closing. The Company has not yet performed the purchase price allocation, and will do so during the fourth quarter.

Share Repurchase Authorization

On October 28, 2014, our Board of Directors terminated the previous share repurchase plan dated October 23, 2012, and authorized a new repurchase of up to \$75.0 million of outstanding common stock through December 2016. Shares may be repurchased either in the open market or in privately negotiated transactions.

Spine Business Spinoff and Organizational Changes

On November 3, 2014, the Company announced its plan for 2015 to spinoff its spine business, and realign the remaining business into two global reporting segments. The spinoff will create a separate, independent medical technology company focused on developing, marketing and selling spine hardware and orthobiologics. The realignment of the remaining business will result in two globally managed divisions, with one providing Specialty Surgical Solutions and the other Orthopedics and Tissue Technologies. These moves to align the portfolio are part of a broader strategy to transform the business that includes optimization and accelerating growth.

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

Spinoff of the Spine Business

Under the proposed plan, the spine business will spinoff from Integra and operate as an independent, publicly held company. The new spine company will have a comprehensive portfolio of spinal hardware solutions, including unique interbody devices, minimally invasive surgery, and deformity, and a top-three orthobiologics offering, including a full range of osteoconductive and osteoinductive solutions utilizing unique demineralized bone, collagen and synthetic matrices.

The spinoff transaction is expected to take the form of a tax-free distribution to Integra shareholders of publicly traded stock in the new spine company. The transaction is expected to be completed within twelve months, subject to certain customary and other conditions, including final approval by the Integra Board of Directors, confirmation of the tax-free nature of the transaction, and the effectiveness of a registration statement that will be filed with the Securities and Exchange Commission, including information about the separation, distribution and related matters. While the Company expects any spinoff transaction to close within twelve months, there can be no assurances regarding the ultimate timing of the transaction or that the transaction will be completed.

The Company expects to incur one-time charges related to the transaction during the reporting periods preceding the separation and does not otherwise expect this to impact the Company's financial results in 2014.

Alignment of Integra Portfolio: Creating the Specialty Surgical Solutions Division

In addition to the above announced separation of the Spine business in a separate publicly traded company, in 2015 the Company plans to realign the remaining business into 2 global reporting segments, Specialty Surgical Solutions and Orthopedics and Tissue Technologies. The new Specialty Surgical Solutions organization will integrate globally what today are the Neurosurgery and Instruments businesses within Integra. Robert T. Davis, Jr., CVP, President, Specialty Surgical Solutions, will lead this newly-created division. The new global Specialty Surgical Solutions division will leverage Integra's market-leading positions in both neurosurgery and instruments and will open up a larger potential market in which this business can achieve its communicated growth trajectory.

In addition, Mark Augusti, CVP, President, Orthopedics and Tissue Technologies, will also take on global responsibility for that division. Dan Reuvers, CVP, President, International, will continue to run an International region management structure to prioritize and focus Integra's investments in International markets.

These plans to realign the business have not taken place yet and therefore these proposed changes have not impacted the Company's current segment disclosures. The Company is in the process of determining how this realignment will impact its segment information in 2015.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related notes thereto appearing elsewhere in this report and our consolidated financial statements for the year ended December 31, 2013 included in the Company's Current Report on Form 8-K dated June 16, 2014, which was filed with the Securities and Exchange Commission on June 20, 2014.

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. Our actual results may 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, 2013 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," "could," "will," "estimate," "continue," "anticipate," "intend," "seek," "plan," "expect," "should," "would" and similar expressions in this report.

GENERAL

Table of Contents

Integra is a world leader in medical technology focused on limiting uncertainty for surgeons so that they can concentrate on providing the best patient care. Integra offers innovative solutions in orthopedic extremity surgery, neurosurgery, spine surgery, and reconstructive and general surgery.

We manage our business through a combination of product groups and geography, and accordingly, we report our financial results under five reportable segments - U.S. Instruments, U.S. Neurosurgery, U.S. Extremities, U.S. Spine and Other (which consists of our U.S. Spine and Private Label businesses) and International.

We present revenues in the following three product categories: Orthopedics, Neurosurgery and Instruments. Our orthopedics product group includes specialty metal implants for surgery of the extremities, shoulder and spine, orthobiologics products for repair and grafting of bone, dermal regeneration products and tissue-engineered wound dressings and nerve and tendon repair products. Our neurosurgery product group includes, among other things, dural grafts and dural sealants which are indicated for the repair of the dura mater, ultrasonic surgery systems for tissue ablation, cranial stabilization and brain retraction systems, systems for measurement of various brain parameters and devices used to gain access to the cranial cavity and to drain excess cerebrospinal fluid from the ventricles of the brain. Our instruments product group includes a wide range of specialty and general surgical and dental instruments and surgical lighting for sale to hospitals, outpatient surgery centers, and physician, veterinarian and dental practices. We manufacture many of our products in plants located in the United States, Puerto Rico, France, Germany, Ireland, the United Kingdom and Mexico. We also source most of our handheld surgical instruments and specialty metal and pyrocarbon implants through specialized third-party vendors.

In the United States, we have several sales channels. We sell Orthopedics products through a large direct sales organization and through specialty distributors focused on their respective surgical specialties. Most Neurosurgery products are sold through directly employed sales representatives; products acquired in the Confluent Surgical acquisition were initially sold through distributors, and we transitioned those products to our direct sales force in the third quarter of 2014. Instruments products are sold through two sales channels, both directly and through distributors and wholesalers, depending on the customer call point. We sell in the international markets through a combination of a direct sales organization and distributors.

We also market certain products through strategic partners in the United States.

We aspire to be a multi-billion dollar diversified global medical technology company that helps patients by limiting uncertainty for medical professionals, and is a high quality investment for shareholders. We will achieve these goals by delivering on our Brand Promises to our customers worldwide and by becoming a top player in all markets in which we compete.

Our strategy is built around three pillars - optimize, execute and accelerate growth. These three pillars support our strategic initiatives to optimize our infrastructure, to deliver on our commitments through improved planning and communication, and to grow by introducing new products to the market through internal development, expanding geographically, and strategic acquisitions.

Acquisition of Confluent Surgical, Inc.

On January 15, 2014, we acquired all outstanding shares of Confluent Surgical, Inc., ("Confluent Surgical") - including its surgical sealant and adhesion barrier product lines - from Covidien Group S.a.r.l, ("Covidien") for an aggregate purchase price of \$255.9 million. The purchase price is comprised of an initial cash payment to Covidien of \$231.0 million upon the closing of the transaction, a separate prepayment of \$4.0 million made under a transitional supply agreement with an affiliate of Covidien, and contingent consideration with an acquisition date fair value of \$20.9 million. The purchase agreement includes a potential maximum undiscounted contingent consideration of \$30.0 million which consists of \$25.0 million upon obtaining certain U.S. governmental approvals and \$5.0 million upon obtaining certain European governmental approvals, both related to the completion of the transition of the Confluent Surgical business.

The transitional supply agreement secures the supply of the acquired products from an affiliate of Covidien until the earlier of (i) the time that the transition of the Confluent Surgical business as discussed above is complete, or (ii) the fifth anniversary of the effective date of the agreement (the agreement also contains an option to extend for another two years by providing written notice at least 180 days prior to the end of the initial five-year period). This agreement contains financial incentives to the affiliate of Covidien for the timely supply of products each fiscal quarter through

the third anniversary of the agreement. The prices paid under the supply agreement are essentially flat through the third anniversary of the agreement, and then increase significantly each of the following three years. We also entered into a transition services agreement with an affiliate of Covidien at the closing for services such as customer service, accounting and information technology management, clinical and regulatory affairs, manufacturing transition services, and other functions.

This acquisition complements our global neurosurgery growth strategy aimed at providing a broader set of solutions for surgical procedures in the head.

Table of Contents

Change in Accounting Treatment for the Medical Device Excise Tax

In the first quarter of 2014, the Company changed its method of accounting for the medical device excise tax ("MDET"). Prior to the change the Company recorded the MDET in inventory at the time of the first sale in the United States and then recognized the tax in cost of goods sold when the medical device was sold to the ultimate customer. Under the new method, the MDET is recorded in selling, general and administrative expenses in the period the first sale in the United States occurs, which could be an intercompany sale.

The Company believes that this change in accounting principle is preferable as the new method provides a better comparison with the Company's industry peers, the majority of which expense the MDET at the time of the first sale in the United States.

The medical device excise tax applies to sales beginning January 1, 2013; therefore, this change affected only 2013 financial results. The cumulative effect of the change in the prior years is included in retained earnings as of December 31, 2013 and the comparative period for the three- and nine-month periods ended September 30, 2013. The financial impact of this change on 2013 has been incorporated into the amounts presented throughout this Form 10-Q and the impact on the three and nine months ended September 30, 2013 is discussed in detail in Note 1 to the condensed consolidated financial statements. For a full reconciliation of the impact on the 2013 historical quarterly financial results, please refer to the investor presentations on the Investor Relations homepage of Integra's website at investor.integralife.com.

Management Changes

On April 29, 2014, the Board of Directors (the "Board") of the Company appointed Glenn G. Coleman as Corporate Vice President of the Company effective as of May 2, 2014. In addition, on April 29, 2014, the Board of the Company appointed Mr. Coleman as Corporate Vice President, Chief Financial Officer and Principal Accounting Officer, which became effective on May 2, 2014. When Mr. Coleman commenced as Chief Financial Officer, John B. Henneman, III ceased to serve as the Company's Chief Financial Officer; however, Mr. Henneman continued to serve as Corporate Vice President, Chief Administrative Officer, until his retirement in September 2014. Jerry Corbin ceased to serve as the Company's Principal Accounting Officer effective May 2, 2014, and continued to serve as Corporate Vice President, Corporate Controller until his retirement in August 2014.

Diabetic Foot Ulcer Clinical Trial

During July 2014, we completed our multicenter clinical trial evaluating the safety and effectiveness of the INTEGRA® Dermal Regeneration Template for the Treatment of Diabetic Foot Ulcers ("the DFU study"), and we are in the process of evaluating all of the data. We are currently preparing submissions in advance of our clinical publication, reimbursement and regulatory strategies. We expect to submit the data from this clinical trial to the United States Food and Drug Administration ("FDA") by the end of 2014. In parallel, we will pursue publishing the data in a peer-reviewed journal. An FDA approval, coupled with published data, is the key to securing reimbursement from third-party payors such as the Centers for Medicare and Medicaid Services, and other large private payors. We anticipate commercializing the resulting DFU product mid-2016.

Acquisition of Medtronic's MicroFrance and Xomed Manual ENT and Laparoscopy Instrumentation Lines
Subsequent to September 30, 2014, on October 27, 2014, the Company completed a stock and asset purchase agreement (the "Purchase Agreement") with Medtronic, Inc. ("Medtronic"), a Minnesota corporation and Medtronic Xomed Instrumentation, SAS ("Medtronic MicroFrance"), a French corporation and an indirect wholly-owned subsidiary of Medtronic, for the acquisition by the Company of all of the capital stock of Medtronic MicroFrance and certain assets of Medtronic and its affiliates related to Medtronic MicroFrance's business (collectively the

"MicroFrance Acquisition").

Medtronic MicroFrance is engaged in the business of developing, manufacturing, marketing and distributing reusable handheld surgical instrument products, which are specialized for ear, nose and throat ("ENT") and laparoscopic procedures and providing related services.

Under the terms of the Purchase Agreement, the Company paid Medtronic a net purchase price of approximately \$60.0 million for the stock and assets acquired subject to a purchase price adjustment for certain working capital changes. The Company also entered into a distribution agreement, an independent sales representative agreement, and a supply agreement with an affiliate of Medtronic at the closing. In addition, the Company entered into a transition services agreement with Medtronic at the closing. The Company has not yet performed the purchase price allocation, and will do so during the fourth quarter.

Spine Business Spinoff and Organizational Changes

27

Table of Contents

Subsequent to September 30, 2014, on November 3, 2014, we announced our plan for 2015 to spinoff our spine business, and realign the remaining business into two global reporting segments. The spinoff will create a separate, independent medical technology company focused on developing, marketing and selling spine hardware and orthobiologics. The realignment of our remaining business will result in two globally managed divisions, with one providing Specialty Surgical Solutions and the other Orthopedics and Tissue Technologies. These moves to align the portfolio are part of a broader strategy to transform the business that includes optimization and accelerating growth.

Spinoff of the Spine Business

Under the proposed plan, the spine business will spinoff from Integra and operate as an independent, publicly held company. The new spine company will have a comprehensive portfolio of spinal hardware solutions, including unique interbody devices, minimally invasive surgery, and deformity, and a top-three orthobiologics offering, including a full range of osteoconductive and osteoinductive solutions utilizing unique demineralized bone, collagen and synthetic matrices.

The spinoff transaction is expected to take the form of a tax-free distribution to Integra shareholders of publicly traded stock in the new spine company. The transaction is expected to be completed within twelve months, subject to certain customary and other conditions, including final approval by the Integra Board of Directors, confirmation of the tax-free nature of the transaction, and the effectiveness of a registration statement that will be filed with the Securities and Exchange Commission, including information about the separation, distribution and related matters. While we expect any spinoff transaction to close within twelve months, there can be no assurances regarding the ultimate timing of the transaction or that the transaction will be completed.

We expect to incur one-time charges related to the transaction during the reporting periods preceding the separation and do not otherwise expect this to impact our financial results in 2014.

Alignment of Integra Portfolio: Creating the Specialty Surgical Solutions Division

In addition to the above announced separation of the Spine business in a separate publicly traded company, in 2015 we plan to realign the remaining business into 2 global reporting segments, Specialty Surgical Solutions and Orthopedics and Tissue Technologies. The new Specialty Surgical Solutions organization will integrate globally what today are the Neurosurgery and Instruments businesses within Integra. Robert T. Davis, Jr., CVP, President, Specialty Surgical Solutions, will lead this newly-created division. The new global Specialty Surgical Solutions division will leverage Integra's market-leading positions in both neurosurgery and instruments and will open up a larger potential market in which this business can achieve its communicated growth trajectory.

In addition, Mark Augusti, CVP, President, Orthopedics and Tissue Technologies, will also take on global responsibility for that division. Dan Reuvers, CVP, President, International, will continue to run an International region management structure to prioritize and focus Integra's investments in International markets.

RESULTS OF OPERATIONS

Executive Summary

Net income for the three months ended September 30, 2014, was \$9.8 million, or \$0.30 per diluted share as compared with a loss of \$30.3 million or \$1.09 per diluted share for the three months ended September 30, 2013.

Net income for the nine months ended September 30, 2014 was \$16.8 million, or \$0.51 per diluted share as compared with net loss of \$34.8 million or \$1.25 per diluted share for the nine months ended September 30, 2013.

The results of operations for the three and nine months ended September 30, 2013 were adversely affected by a voluntary recall of certain collagen-based products manufactured in our Añasco, Puerto Rico facility, and a non-cash

goodwill impairment charge of \$46.7 million for our U.S. Spine reporting unit recorded in the quarter ended September 30, 2013. This recall resulted in lost revenues, increased sales reserves, inventory scrap, and costs of remediation at the facility which continued throughout 2013. We resolved the issues relating to the recall by the beginning of the first quarter of 2014, and saw improved margins from DuraSeal revenues; however, the costs associated with closing the Confluent Surgical acquisition and the related integration effort impacted our 2014 financial results.

Table of Contents

Income before taxes includes the following special charges:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Global ERP implementation charges	\$4,960	\$4,950	\$17,976	\$18,715
Structural optimization charges	3,490	1,360	9,203	7,030
Manufacturing facility remediation costs	538	2,761	905	7,849
Certain expenses associated with product recalls	—	—	—	1,444
Certain employee severance charges	3,619	30	8,229	30
Discontinued product lines charges	747	—	1,460	—
Acquisition-related charges	2,474	319	7,480	993
Impairment charges	—	46,738	600	46,738
Convertible debt non-cash interest	1,822	1,633	5,256	4,865
Total	\$17,650	\$57,791	\$51,109	\$87,664

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Cost of goods sold	\$5,453	\$4,050	\$12,522	\$12,922
Research and development	—	—	500	—
Selling, general and administrative	10,375	5,370	32,831	23,139
Goodwill impairment charge	—	46,738	—	46,738
Interest expense	1,822	1,633	5,256	4,865
Total	\$17,650	\$57,791	\$51,109	\$87,664

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, certain of the special charges discussed above could recur with similar materiality in the future. In 2010, we began investing significant resources in the global implementation of a single enterprise resource planning ("ERP") system. We began capitalizing certain costs for the project starting in 2011 and continued to do so during 2014. We placed the ERP in service across a number of U.S. sites in May of 2014, and at that time we began depreciating the capitalized costs associated with that part of the implementation.

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, the business model objectives that management has established, and 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.

Update on Remediation Activities

The FDA inspected our neurosurgery manufacturing facility in Andover, England in June 2012. On November 5, 2012, we received a warning letter dated November 1, 2012 related to quality systems issues at that facility. The warning letter identified violations related to corrective and preventative actions, process validations, internal quality

audits, and internal review of the suitability and effectiveness of the quality system at defined intervals. Since the conclusion of the FDA inspection in June 2012, we have remediated the observations that the FDA has made and continue to make further improvements in the quality system. We have received a letter from the FDA on April 28, 2014 stating that the FDA had accepted the Corrective Action Plan which would be verified at an FDA Inspection.

Table of Contents

On February 14, 2013, we received a warning letter from the FDA dated February 13, 2013 relating to quality systems issues at our manufacturing facility located in Añasco, Puerto Rico ("Añasco facility"). The letter resulted from an inspection conducted at that facility during October and November 2012. On February 15, 2013 we stopped distribution of our collagen products manufactured in the Añasco facility in order to confirm that we had successfully validated all such products and engaged a third-party consultant having appropriate quality system regulations expertise to confirm such validations. On February 22, 2013 the third-party consultant certified the completeness of such validations and we resumed distribution of collagen products from the Añasco facility.

We met with the Office of Compliance at the Center for Devices and Radiological Health on March 26, 2013. We presented our plans for both immediate remediation and our corporate plan for the development and implementation of a single Quality System for the entire Company. We have engaged former FDA professionals as third party consultants to work with us on our remediation plans. We also met with the Office of Compliance at the FDA San Juan, Puerto Rico office to discuss the remediation plans at the Añasco facility. We have prioritized senior level quality and regulatory staff to address the quality system improvement plans at all of our facilities.

On October 24, 2013, the FDA began an inspection of the Añasco facility. At the end of the inspection on November 26, 2013, the FDA issued a new Form 483 with six additional observations relating to Corrective and Preventative Action ("CAPA"), quality system procedures and instructions, procedures pertaining to complaints, procedures pertaining to checking and maintaining equipment, procedures for finished device acceptance and procedures to prevent contamination of equipment or products. These observations did not impact our ability to manufacture and sell product. On March 4, 2014 we met with the FDA Office of Compliance, San Juan, Puerto Rico District to discuss the Corrective Action and remediation plan at the Añasco facility. We committed to several corporate-wide corrections and additional site corrections at that meeting.

On September 4, 2014, the FDA began a re-inspection of the Añasco facility. This re-inspection focused primarily on the issues raised in the February 2013 Warning Letter and in previous inspections of the Añasco facility relating to quality systems and compliance issues. The inspection was completed on September 30, 2014, and the FDA found that the Company had addressed the issues raised in the warning letter and previous inspectional observations, and it issued no other inspectional observations. In reaching this conclusion, the FDA determined that the Company's remediation activities were effective and its quality management system was adequate.

Over the past several years we have undertaken significant efforts to remediate the observations that the FDA has made and have been working on improving and revising our quality systems. Our remediation activity expenses during the three and nine months ended September 30, 2014 were \$0.5 million and \$0.9 million, respectively, and during the three and nine months ended September 30, 2013, were \$2.8 million and \$7.8 million, respectively. These costs consist of consulting expenses and other work activities required to complete our remediation activities, and we expect to incur similar types of expenses during the remainder of 2014, albeit at lower spending levels compared to 2013. We will provide periodic status reports to the FDA and work cooperatively with the agency to resolve any outstanding issues.

Revenues and Gross Margin on Product Revenues

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in thousands)			
Segment Net Sales				
U.S. Neurosurgery	\$62,323	\$45,114	\$177,265	\$125,877
U.S. Instruments	39,853	43,004	116,078	121,900
U.S. Extremities	36,746	31,831	103,083	93,802
U.S. Spine and Other	42,015	47,408	128,168	134,889
International *	48,782	45,889	151,535	138,977
Total revenue	229,719	213,246	676,129	615,445
Cost of goods sold	85,974	81,767	255,333	243,208

Edgar Filing: INTEGRA LIFESCIENCES HOLDINGS CORP - Form 10-Q

Gross margin on total revenues	\$143,745	\$131,479	\$420,796	\$372,237	
Gross margin as a percentage of total revenues	62.6	% 61.7	% 62.2	% 60.5	%

* The Company attributes revenue to geographic areas based on the location of the customer. There are certain revenues managed by the various U.S. segments above that are generated from non-U.S. customers and therefore included in Europe and Rest of World revenues disclosed in the "Geographic Product Revenues and Operations" section of this document.

30

Table of Contents

Certain 2013 segment revenues above have been reclassified in order to conform with the current year's presentation.

Three Months Ended September 30, 2014 as Compared to Three Months Ended September 30, 2013

Revenues and Gross Margin

For the three months ended September 30, 2014 total revenues increased by \$16.5 million to \$229.7 million from \$213.2 million for the same period in 2013.

U.S. Neurosurgery revenues were \$62.3 million, an increase of 38% from the prior-year period. The increase largely resulted from the impact of the DuraSeal product sales arising out of the Confluent Surgical acquisition, which added \$13.9 million in the quarter. We also saw increases from neuro critical care and tissue ablation product lines, which benefited from strong sales of capital equipment in the quarter.

U.S. Instruments revenues were \$39.9 million, a decrease of 7% from the prior-year period. The decrease impacted all instrument franchises as hospital spending is still cautious, and as hospitals are beginning to focus more on repairing old instruments versus replacing them. The decrease also resulted from product discontinuances.

U.S. Extremities revenues were \$36.7 million, an increase of 15% from the prior-year period. This increase resulted primarily from dermal and wound care franchise, as a result of adding new salespeople and the launch of the Integra Wound Matrix-Thin product, and from our shoulder business as a result of the launch of new shoulder lines and adding new distributors.

U.S. Spine and Other revenues, which include our spine hardware, orthobiologics and private label products, were \$42.0 million, a 11% decrease from the prior-year period. Our private label business was a large driver of the decrease because the comparable quarter last year was unusually high as we increased capacity once the backorder from the 2013 recall subsided. Our overall spine business was down 3%, resulting from fewer overall spine procedures partially offset by smaller increases in orthobiologics revenues.

International segment revenues were \$48.8 million, an increase of 6% from the prior-year period, spread evenly across both the EMEA and LAPAC divisions. This increase primarily resulted from the incremental impact of DuraSeal product sales, and increased skin and wound sales. Foreign currency also reduced our sales by \$0.1 million when compared to the same quarter last year. These contributions to increasing sales were largely offset by weak spine sales and product discontinuances.

Gross margin increased to \$143.7 million for the three-month period ended September 30, 2014 from \$131.5 million for the same period last year. Gross margin as a percentage of total revenue increased to 62.6% for the third quarter of 2014 from 61.7% for the same period last year. The increase in gross margin percentage resulted primarily from an increase in sales of higher margin products such as DuraSeal, skin and wound products, and Duragen products which were subject to the recall in 2013, and improved manufacturing capacity utilization for our regenerative products. We also saw decreased remediation costs at our manufacturing facilities because throughout 2013 we invested in improvements to quality systems across our organization as a result of prior FDA findings. In 2014, we are seeing our spending return to a more normal level since those initial remediation efforts are largely complete. Finally, we also saw gross margin improvement from product recall expenses in 2013 that did not recur in the current period.

We expect our consolidated gross margin percentage for the full year 2014 to be approximately 62%, up compared to 2013. We expect our gross margin will see increases from improved product mix - with more sales in the skin, wound and DuraSeal lines - and improvements in yield as we resolve FDA inspection issues.

Operating Expenses

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

	Three Months Ended September 30,		
	2014	2013	
Research and development	5.7	% 6.1	%
Selling, general and administrative	47.8	% 46.8	%
Intangible asset amortization	1.3	% 1.4	%
Goodwill impairment charge	—	% 21.9	%

Total operating expenses	54.8	%	76.2	%
--------------------------	------	---	------	---

31

Table of Contents

Total operating expenses, which consist of research and development expenses, selling, general and administrative expenses, and amortization expense, decreased \$36.6 million, or 23%, to \$126.0 million in the three months ended September 30, 2014, compared to \$162.6 million in the same period last year.

Research and development expenses in the third quarter of 2014 increased \$0.1 million compared to the same period last year. These increases resulted from higher product development spending in extremities and neurosurgery, partially offset by headcount reductions earlier in the year. We expect full-year 2014 spending on research and development to be approximately 6% of total revenues.

Selling, general and administrative expenses in the third quarter of 2014 increased by \$10.1 million to \$109.9 million compared to \$99.8 million in the same period last year. Selling and marketing expenses increased by \$3.1 million, primarily resulting from higher commissions and distributor fees related to the DuraSeal sales, increased headcount and overall sales increases in general. General and administrative costs increased \$7.0 million as a result of integration costs for DuraSeal, additional depreciation as we implemented our ERP system in certain locations during May, and higher severance costs. We expect full year selling, general and administrative expenses to be approximately 47% to 49% of revenues. Going forward we expect to incur incremental depreciation expense of approximately \$6.0 million per year over the life of our ERP system.

Amortization expense in the third quarter of 2014 was flat compared to the same period last year.

Operating expenses for the third quarter of 2013 included a goodwill impairment charge of \$46.7 million. The goodwill impairment charge was related to our U.S. Spine reporting unit.

Non-Operating Income and Expenses

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

	Three Months Ended September 30,	
	2014	2013
	(In thousands)	
Interest income	\$25	\$38
Interest expense	(5,916	) (5,316
Other income (expense)	(293	) (263

Interest Income and Interest Expense

Interest expense in the three months ended September 30, 2014 increased by \$0.6 million primarily because we have increased borrowings on our Senior Credit facility compared to the prior year. Additionally, we placed our ERP system in service in various U.S. locations during May 2014 and therefore no longer capitalize interest related to that portion of the project. Finally, we immediately expensed \$0.3 million of previously capitalized financing costs in connection with the refinancing of our Senior Credit Facility in July 2014. Our reported interest expense for the three-month periods ended September 30, 2014 and 2013 includes non-cash interest related to the accounting for convertible securities of \$1.8 million and \$1.6 million, respectively.

Interest income was negligible for the three months ended September 30, 2014, and 2013.

Other Income (Expense)

Other income (expense) for both the third quarter of 2014 and 2013 was primarily attributable to the foreign exchange impact on intercompany balances.

Income Taxes

Three Months Ended September 30,	
2014	2013
(In thousands)	

Edgar Filing: INTEGRA LIFESCIENCES HOLDINGS CORP - Form 10-Q

Income (loss) before income taxes	\$11,543	\$(36,682)
Income tax expense (benefit)	1,736	(6,352)
Effective tax rate	15.0	% 17.3	%

32

Table of Contents

The Company's effective income tax rates for the three months ended September 30, 2014 and 2013 were 15.0% and 17.3%, respectively. The primary drivers of the overall tax rate for the three months ended September 30, 2014 were a tax benefit of \$1.6 million that was recognized for the release of uncertain tax positions due to the expiration of statute of limitations, partially offset by an expense of \$0.5 million relating to a state income tax audit settlement and an expense of \$0.3 million relating to foreign returns filed during the quarter. The primary drivers of the overall tax rate for the three months ended September 30, 2013 were the goodwill impairment charge that was partially deductible for tax purposes, partially offset by a benefit of \$2.3 million for the release of uncertain tax positions and related interest due to the expiration of the statute of limitations.

The Company expects its effective income tax rate for the full year to be approximately 23% to 24%, resulting largely from the release of uncertain tax positions, domestic and foreign audit settlements, as well as the jurisdictional mix of pretax income in U.S.-based operations relative to foreign operations.

The effective tax rate may vary from period to period depending on, among other factors, the geographic and business mix of taxable earnings and losses, tax planning and settlements with various taxing authorities. We consider these factors and others, including our history of generating taxable earnings, in assessing our ability to realize deferred 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 we expect to pay in the coming year which would be classified as current income taxes payable.

Nine Months Ended September 30, 2014 as Compared to Nine Months Ended September 30, 2013

Revenues and Gross Margin

For the nine months ended September 30, 2014, total revenues increased by \$60.7 million to \$676.1 million from \$615.4 million during the prior-year period.

U.S. Neurosurgery revenues were \$177.3 million, an increase of 41%. The increase largely resulted from the impact of the DuraSeal product sales arising out of the Confluent Surgical acquisition which added \$38.2 million in the period. We also saw increases from our dural repair franchise, which was up against a soft comparable as a result of the recall in 2013, and neuro critical care and tissue ablation, both of which benefited from strong sales of capital equipment in the period.

U.S. Instruments revenues were \$116.1 million, a decrease of 5% from the prior year. The decrease resulted primarily from lower sales in our acute-care and alternate-site businesses and product discontinuances. Increases in our lighting product line partially offset this decline.

U.S. Extremities revenues were \$103.1 million, an increase of 10% from the prior year. This increase resulted primarily from dermal and wound care products, and from our shoulder business as a result of the launch of new shoulder lines in the latter half of 2013 and increases in distributors. We also saw some softness in our lower extremity franchise during the period.

U.S. Spine and Other revenues, which include our spine hardware, orthobiologics and private label products, were \$128.2 million, a decrease of 5% from the prior year. Our overall spine business was down approximately 3% as decreases in spine hardware revenues were partially offset by increases in orthobiologics, especially demineralized bone products. Sales of our private label products were down from the prior-year period because we lost some business due to the recall issues in 2013.

International segment revenues were \$151.5 million, an increase of 9% from prior year. These increases primarily resulted from the incremental impact of DuraSeal product sales, skin and wound, and strong neuro capital equipment

sales. Foreign currency also increased our sales in the period by \$0.7 million primarily due to a stronger euro. These contributions to increasing sales were partially offset by weak orthopedic and spine sales.

Gross margin increased to \$420.8 million for the nine months ended September 30, 2014 from \$372.2 million for the same period last year. Gross margin as a percentage of total revenue increased to 62.2% for the year to date period from 60.5% for the same period last year. The increase in gross margin percentage resulted primarily from increased sales of higher margin products such as DuraSeal, skin and wound products, and Duragen products that were subject to the recall in 2013. Our 2014 gross margin also saw improvement from product recall expenses in 2013 that did not recur. Additionally, we had lower remediation costs at our manufacturing facilities because throughout 2013, we invested in improvements to quality systems across our organization as a

Table of Contents

result of prior FDA findings. In 2014, we are seeing our spending return to a more normal level since those initial remediation efforts are largely complete.

Operating Expenses

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

	Nine Months Ended September 30,		
	2014	2013	
Research and development	5.8	% 6.1	%
Selling, general and administrative	49.3	% 49.7	%
Intangible asset amortization	1.3	% 1.6	%
Goodwill impairment charge	—	% 7.6	%
Total operating expenses	56.4	% 65.0	%

Total operating expenses, which consist of research and development expenses, selling, general and administrative expenses, and amortization expense, decreased \$18.1 million, or 5%, to \$381.9 million in the first nine months of 2014, compared to \$400.0 million in the same period last year.

Research and development expenses in the first nine months of 2014 increased \$1.9 million compared to the same period last year primarily resulting from higher product development spending in extremities and neurosurgery. These increases were partially offset by lower expenses earlier in the year due to headcount reductions, and lower overall project costs in other areas.

Selling, general and administrative expenses in the first nine months of 2014 increased by \$27.5 million to \$333.5 million compared to \$306.0 million in the same period last year. Selling and marketing expenses increased by \$9.3 million primarily resulting from higher headcount, the impact of DuraSeal, and U.S. Extremities' commission costs which were higher as a result of increases in revenue. General and administrative costs were up \$18.2 million primarily because of higher headcount, additional depreciation as we implemented our ERP system in certain locations during May, consulting costs to support various strategic projects, and higher severance costs. These general and administrative increases were partially offset by \$1.2 million to reflect a decrease in the fair value of the contingent consideration liability because during the second quarter of 2014 management concluded that the sales threshold for a contingent consideration payment from a prior acquisition was no longer probable of being achieved. We expect full year selling, general and administrative expenses to be approximately 47% to 49%. Going forward we expect to incur incremental depreciation expense of approximately \$6.0 million per year over the life of our ERP system.

Amortization expense in the first nine months of 2014 decreased by \$0.6 million to \$9.0 million, compared to \$9.7 million in the same period last year. The decrease primarily resulted from certain intangible assets becoming fully amortized in the first quarter of 2013.

Operating expenses for the third quarter of 2013 included a goodwill impairment charge of \$46.7 million. The goodwill impairment charge was related to our U.S. Spine reporting unit.

Non-Operating Income and Expenses

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

	Nine Months Ended September 30,		
	2014	2013	
	(In thousands)		
Interest income	\$ 145	\$ 390	
Interest expense	(16,440	) (15,081)
Other income (expense)	142	(1,544)

Interest Income and Interest Expense

Interest expense for the nine months ended September 30, 2014 increased by \$1.4 million primarily because we increased borrowings on our Senior Credit facility compared to the prior year, and we placed our ERP system in service in various U.S. locations during May 2014; therefore, we no longer capitalize interest related to that portion of the project. Also, in July 2014 we

Table of Contents

expensed \$0.3 million of previously capitalized deferred financing costs in connection with the refinancing of our Senior Credit Facility. Furthermore, the amount of our 2016 Notes discount amortization increased by \$0.3 million as expected when using the effective interest method for its amortization in the nine-month period ended September 30, 2013. Our reported interest expense for the nine-month periods ended September 30, 2014 and 2013 includes non-cash interest related to the accounting for convertible securities of \$5.3 million and \$4.9 million, respectively. Interest income for the nine months ended September 30, 2014 and 2013 decreased because the Company no longer holds any short-term investments in time deposit accounts outside the United States as it did for a portion of the prior-year period.

Other Income (Expense)

Other income of \$0.1 million in 2014 was primarily attributable to foreign exchange gains on intercompany balances. Other expenses of \$1.5 million in 2013 were primarily related to a write off of \$1.5 million for a capital expenditure project not placed into service and by foreign exchange losses on intercompany balances.

Income Taxes

	Nine Months Ended September 30,		
	2014	2013	
	(In thousands)		
Income (loss) before income taxes	\$22,704	\$(44,010)
Income tax expense (benefit)	5,866	(9,172)
Effective tax rate	25.8	% 20.8	%

The Company's effective income tax rates for the nine months ended September 30, 2014 and 2013 were 25.8% and 20.8%, respectively. The primary drivers of the income tax rate for the nine months ended September 30, 2014 were an expense of \$1.2 million relating to state income tax audit settlements, an expense of \$0.4 million for a foreign income tax audit settlement, and an expense of \$0.3 million from a change in state filing positions; offset by a benefit of \$2.0 million for the release of uncertain tax positions and related interest due to the expiration of statute of limitations. The primary drivers of the income tax rate for the nine months ended September 30, 2013 were a benefit of \$3.5 million for the release of uncertain tax positions, a benefit of \$0.5 million relating to the granting of Irish research credits for 2011 and 2012, and a benefit of \$0.9 million due to the extension of the Federal research credit, enacted through the American Taxpayer Relief Act. These benefits in 2013 were recorded against a book loss, relating primarily to goodwill impairment; accordingly, they had the effect of increasing the effective tax rate in that period.

The Company expects its effective income tax rate for the full year to be approximately 23% to 24%, resulting largely from the release of uncertain tax positions, domestic and foreign audit settlements, as well as the jurisdictional mix of pretax income in U.S.-based operations relative to foreign operations.

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 the various taxing authorities. We consider these factors and others, including our history of generating taxable earnings, in assessing our ability to realize deferred 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 it expects to pay in the coming year which are classified as current income taxes payable.

Table of Contents**GEOGRAPHIC PRODUCT REVENUES AND OPERATIONS**

We attribute revenues to geographic areas based on the location of the customer. There are certain revenues managed by the various U.S. segments that are generated from non-U.S. customers and therefore included in Europe and the Rest of World revenues below. Total revenue by major geographic area consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)		(In thousands)	
United States	\$180,101	\$166,555	\$522,288	\$473,740
Europe	23,850	21,543	75,026	68,936
Rest of World	25,768	25,148	78,815	72,769
Total Revenues	\$229,719	\$213,246	\$676,129	\$615,445

Domestic revenues increased to \$180.1 million, or 78% of total revenues, for the three months ended September 30, 2014 from \$166.6 million, or 78% of total revenues, for the three months ended September 30, 2013. International revenues increased to \$49.6 million from \$46.7 million in the prior-year period, an increase of 6%. Changes in foreign exchange rates decreased our sales by \$0.1 million compared to the three months ended September 30, 2013.

Domestic revenues increased to \$522.3 million, or 77% of total revenues, for the nine months ended September 30, 2014 from \$473.7 million, or 77% of total revenues, for the nine months ended September 30, 2013. International revenues increased to \$153.8 million from \$141.7 million in the prior-year period, an increase of 9%. Changes in foreign exchange rates increased our sales by \$0.7 million compared to the nine months ended September 30, 2013, primarily due to a stronger euro.

We generate significant revenues outside the United States, a portion of which are U.S. dollar-denominated transactions conducted with customers who generate revenue in currencies other than the U.S. dollar. As a result, currency fluctuations between the U.S. dollar and the currencies in which those customers do business could have an impact on the demand for our products in foreign countries.

Local economic conditions, regulatory compliance or political considerations, the effectiveness of our sales representatives and distributors, local competition and changes in local medical practice all may combine to affect our sales into markets outside the United States.

LIQUIDITY AND CAPITAL RESOURCES**Cash and Marketable Securities**

We had cash and cash equivalents totaling approximately \$140.2 million and \$120.6 million at September 30, 2014 and December 31, 2013, respectively, which are valued based on Level 1 measurements in the fair value hierarchy. At September 30, 2014, our non-U.S. subsidiaries held approximately \$105.8 million of cash and cash equivalents that are available for use by our operations outside of the United States; however, subsequent to September 30, 2014, on October 27, 2014, the Company funded the purchase price for the MicroFrance Acquisition with funds held outside the United States. If cash and cash equivalents held by our non-U.S. subsidiaries were repatriated to the United States, or used for United States operations, certain amounts could be subject to tax in the United States for the incremental amount in excess of the foreign tax paid.

Cash Flows

	Nine Months Ended September 30,	
	2014	2013
	(In thousands)	
Net cash provided by operating activities	\$58,706	\$41,572
Net cash used in investing activities	(264,466	) (40,169
Net cash provided by financing activities	231,044	19,507

Edgar Filing: INTEGRA LIFESCIENCES HOLDINGS CORP - Form 10-Q

Effect of exchange rate fluctuations on cash	(5,667	) 1,020
Net increase in cash and cash equivalents	\$19,617	\$21,930

Table of Contents

In 2014, we anticipate that our principal uses of cash will include between \$40.0 million and \$45.0 million on capital expenditures primarily for our continued expansion of regenerative medicine manufacturing capacity, support and maintenance in our existing plants, our enterprise resource planning system implementation, and additions to our instrument kits used in sales of orthopedic products. Additionally, we will continue to build inventories in preparation for our facilities consolidations expected to occur at the end of 2014.

Cash Flows Provided by Operating Activities

We generated operating cash flows of \$58.7 million and \$41.6 million for the nine months ended September 30, 2014 and 2013, respectively.

Operating cash flows for the nine months ended September 30, 2014 benefited from an increase in net income of \$51.7 million compared to the same period in 2013. Changes in working capital decreased cash flows for the nine months ended September 30, 2014 by approximately \$14.0 million. Among the changes in working capital, accounts receivable used \$3.8 million of cash, inventory used \$26.6 million of cash, prepaid expenses and other current assets provided \$6.6 million of cash, and accounts payable, accrued expenses and other current liabilities provided \$8.8 million of cash.

Operating cash flow for the nine months ended September 30, 2013 was negatively impacted by the net loss for the period. Changes in working capital decreased cash flows by approximately \$12.8 million. Among the changes in working capital, accounts receivable provided \$1.4 million of cash, inventory used \$28.8 million of cash, prepaid expenses and other current assets used \$0.7 million of cash, and accounts payable, accrued expenses and other current liabilities provided \$14.2 million of cash.

Cash Flows Used in Investing Activities

During the nine months ended September 30, 2014, we paid \$235.0 million for the acquisition of Confluent Surgical, \$29.5 million for capital expenditures, most of which was directed to the expansion of our regenerative medicine production capacity and global enterprise system implementation.

During the nine months ended September 30, 2013, we paid \$37.7 million for capital expenditures, most of which was directed to the expansion of our regenerative medicine production capacity and global enterprise system implementation, and \$3.0 million for the acquisition of Tarsus Medical, Inc.

Cash Flows Provided by Financing Activities

Our principal sources of cash for financing activities in the nine months ended September 30, 2014 were \$225.0 million of net borrowings under our Senior Credit Facility primarily to fund the Confluent Surgical acquisition. We also borrowed \$150.0 million under the term loan portion of our Senior Credit Facility in connection with our July 2014 refinancing, but that had no net impact on our cash position as it was used to repay a portion of our revolving line of credit balance. Additionally, we incurred debt issuance costs of \$3.1 million and received proceeds from stock option exercises of \$8.3 million.

Our principal sources of cash for financing activities in the nine months ended September 30, 2013 were \$30.0 million of borrowings under our senior credit facility, and our primary uses of cash for financing activities were \$1.1 million in debt issuance costs.

Working Capital

At September 30, 2014 and December 31, 2013, working capital was \$432.5 million and \$401.8 million, respectively.

Amended and Restated Senior Credit Agreement, Convertible Debt and Related Hedging Activities

See Note 5 - Debt to the current period's condensed consolidated financial statements for a discussion of our (i) amended and restated Senior Credit Agreement, and (ii) convertible debt and related hedging activities,.

Share Repurchase Plan

On October 23, 2012, our Board of Directors authorized a repurchase of up to \$75.0 million of outstanding common stock through December 2014. Shares may be repurchased either in the open market or in privately negotiated transactions. We repurchased no shares under this program during the first nine months of 2014 and \$75.0 million remains available under the authorization.

Subsequent to September 30, 2014, on October 28, 2014, our Board of Directors terminated the previous share repurchase plan dated October 23, 2012, and authorized a new repurchase of up to \$75.0 million of outstanding common stock through December 2016. Shares may be repurchased either in the open market or in privately

negotiated transactions.

37

Table of Contents

Dividend Policy

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

Capital Resources

We believe that our cash and available borrowings under the Senior Credit Facility are sufficient to finance our operations and capital expenditures. The Company considers all such outstanding amounts to be long-term in nature based on its current intent and ability to repay the borrowings outside of the next twelve month period.

Contractual Obligations and Commitments

As of September 30, 2014, we were obligated to pay the following amounts under various agreements:

	Total	Payments Due by Calendar Year			
		Remaining 2014	2015-2016	2017-2018	Thereafter
	(In millions)				
Convertible Securities (1)	\$230.0	\$—	\$230.0	\$—	\$—
Revolving Credit Facility (2)	261.9	—	—	—	261.9
Term Loan	150.0	—	13.1	28.1	108.8
Interest (3)	20.2	2.6	12.5	4.2	0.9
Employment Agreements (4)	2.7	0.2	1.7	0.8	—
Operating Leases	64.3	2.9	19.6	11.5	30.3
Purchase Obligations	18.2	6.2	5.7	6.3	—
Other	6.6	1.3	3.1	1.0	1.2
Total	\$753.9	\$13.2	\$285.7	\$51.9	\$403.1

(1) The estimated debt service obligation of the senior convertible securities includes interest expense representing the amortization of the discount on the liability component of the senior convertible notes in accordance with the authoritative guidance. See Note 5 "Debt" of our condensed consolidated financial statements for additional information.

(2) The Company may borrow and make payments against the revolver portion of its Senior Credit 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.

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

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

The Company has excluded contingent consideration obligations related to prior acquisitions from the contractual obligations table above; these liabilities had a fair value of \$21.2 million at September 30, 2014. These liabilities have been excluded because the amounts to be paid and the potential payment dates are not fixed.

The Company has also excluded the liability for uncertain tax benefits from the contractual obligations table above, including interest and penalties, totaling \$1.5 million at September 30, 2014. 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.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements during the nine months ended September 30, 2014 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 is material to our interests.

38

Table of Contents

OTHER MATTERS

Critical Accounting Estimates

The critical accounting estimates included in Company's Current Report on Form 8-K dated June 16, 2014, which was filed with the Securities and Exchange Commission on June 20, 2014, for the fiscal year ended December 31, 2013, have not materially changed, except as noted below.

Goodwill

See Note 4 - Goodwill and Other Intangible Assets to the current period's condensed consolidated financial statements for a discussion of the annual goodwill impairment testing that we performed as of July 31, 2014.

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, Swiss francs, British pounds, Canadian dollars, Australian dollars and Japanese yen. 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 with terms of up to 12 months 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.

We maintain written policies and procedures governing our risk management activities. With respect to cash flow hedges, changes in cash flows attributable to hedged transactions are generally expected to be completely offset by changes in the fair value of hedge instruments. Consequently, foreign currency exchange contracts would not subject us to material risk 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 September 30, 2014 would increase interest income by approximately \$1.4 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 14 basis points. We are subject to foreign currency exchange risk with respect to cash balances maintained in foreign currencies.

Table of Contents

Senior Credit Facility - Our interest rate risk relates primarily to U.S. dollar LIBOR-indexed borrowings. We have used an interest rate derivative instrument to manage our earnings and cash flow exposure to changes in interest rates by utilizing a forward-starting interest rate swap that began to offset a portion of our interest payments in the first quarter of 2011. This interest rate derivative instrument fixed the interest rate on a portion of our expected LIBOR-indexed floating-rate borrowings beginning on December 31, 2010. The interest rate swap had a notional amount of \$101.3 million outstanding as of September 30, 2014. We recognized \$0.4 million of additional interest expense related to this derivative during the three months ended September 30, 2014. The fair value of our interest rate derivative instrument was a net liability of \$1.3 million at September 30, 2014.

Based on our outstanding borrowings at September 30, 2014, a one-percentage point change in interest rates would have impacted interest expense on the unhedged portion of the debt by \$3.1 million on an annualized basis.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

As required by Exchange Act Rule 13a-15(b), we have carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2014. Based upon this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2014 to provide such reasonable assurance.

As previously disclosed in the quarter ended June 30, 2014, the Company is in the process of a multi-year implementation of a global enterprise resource planning ("ERP") system. In addition, 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.

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 September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Various lawsuits, claims and proceedings are pending or have been settled by us; the most significant of which are described below.

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

On June 6, 2012, the Company was contacted by the United States Attorney's Office for the District of New Jersey regarding the activities of sales representatives in a single region within our Extremities Reconstruction division. The U.S. Attorney's Office was investigating the activities of three sales representatives, one of whom was a supervisor until terminated by the Company for failure to cooperate with this investigation. The activities at issue pertain to alleged improper billing of products for extremities indications. On August 12, 2014, the United States Attorney for the District of New Jersey announced that two former Integra sales representatives, one of whom was a supervisor, entered guilty pleas as a result of the investigation. According to the United States Attorney for the District of New Jersey, these individuals acted without the awareness of the Company. The Company cooperated with the U.S. Attorney's Office on a voluntary basis throughout the investigation and has reimbursed affected customers. The reimbursements were made in historical periods and were not material. The Company was not a subject or target of the investigation, and believes the investigation to now be concluded.

The Company manufactures and sells certain extremities products internationally pursuant to a license agreement that the licensor had indicated it would terminate effective October 20, 2014 after the parties were unable to resolve disagreements under the license agreement. Revenues for products sold under that license agreement approximated \$5.5 million in 2013. On October 17, 2014, the parties resolved their disagreements and extended the Company's right to manufacture and sell these products through December 31, 2015.

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

ITEM 1A. RISK FACTORS

The Risk Factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, as modified by the subsequent Quarterly Report on Form 10-Q for the period ended June 30, 2014, have not materially changed except as noted below.

Our plan to separate our Spine business into a separate, independent medical technology company is subject to various risks and uncertainties and may not be completed in accordance with the expected plans or anticipated timeline, or at all.

On November 3, 2014, we announced a plan to separate our Spine business into a separate, independent public company. The separation, which is expected to be completed within 12 months, is subject to board approval of the final terms of the separation and certain other customary conditions, including confirmation of the tax-free nature of the transaction, and the effectiveness of a registration statement that will be filed with the SEC.

Unanticipated developments, including both the Spine and legacy businesses' ability to respond to the changes in its end markets that could affect demand for those companies' products, changes in business relationships with customers or their purchases from each company, possible delays in obtaining necessary tax opinions, regulatory approvals or clearances, uncertainty of the financial markets and executing the separation, could delay or prevent the completion of

the proposed separation, or cause the proposed separation to occur on terms or conditions that are different or less favorable than expected. We expect that the process of completing the proposed separation will be time-consuming and involve significant costs and expenses, which may be significantly higher than what we currently anticipate and may not yield a discernible benefit if the separation is not completed. Executing the proposed separation will require significant time and attention from our senior management and key employees, which could distract them from operating our business, disrupt operations and result in the loss of business opportunities, which could adversely affect our business, financial results and results of operations. We may also experience increased difficulties in attracting, retaining and motivating key employees during the pendency of the separation and following its completion, which could harm our businesses.

The proposed separation of the Spine business may not achieve some or all of the anticipated benefits.

Table of Contents

Even if the proposed separation of the Spine business is completed, we may not realize any or all of the anticipated strategic, financial, operational, marketing or other benefits from the spin-off, including each company's ability to benefit from the new focus or to achieve anticipated growth rates, margins and scale and to execute on its strategy generally. As separate, independent, publicly traded companies, each of the two companies will be smaller with a narrower business focus and may be more vulnerable to changing market conditions, which could materially and adversely affect their respective business, financial condition and results of operations. Further, there can be no assurance that the combined value of the common stock of the two publicly-traded companies will be equal to or greater than what the value of our common stock would have been had the proposed separation not occurred.

We are subject to stringent domestic and foreign medical device regulation and any adverse regulatory action may materially 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. 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 resources;
- involve rigorous and expensive pre-clinical and clinical testing, as well as increased post-market surveillance;
- 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 regulations. For example, we are required to comply with the FDA's Quality System Regulation (QSR), 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 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 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.

The FDA has been increasing its scrutiny of the medical device industry and the government is expected to continue to scrutinize the industry closely with inspections, and possibly enforcement actions, by the FDA or other 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. 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.

We have outstanding FDA warning letters related to our Andover, England and Añasco, Puerto Rico facilities. We have incurred, and will incur, expenses to remediate issues identified in those warning letters and other observations issued in connection with other inspections at other facilities, and to prepare our manufacturing facilities for anticipated FDA inspections. The FDA has notified us that it will not grant requests for exportation certificates to foreign governments for our Añasco, Puerto Rico facility (the “Añasco Facility”) until the violations identified in the warning letter have been corrected. If such remediation cannot be completed in a timely manner, we may not be able to sell such products in certain markets. There can be no assurance that such remediation and preparation activities will address all such observations to the FDA's satisfaction, or that the FDA will not impose additional regulatory sanctions with respect to such observations. On September 30, 2014, the FDA completed an inspection of the Añasco Facility. The Añasco Facility is operating subject to an FDA warning letter dated February 13, 2013 (the “Warning

Table of Contents

Letter”) that relates to quality systems and compliance issues. The inspection began on September 4, 2014 and focused primarily on the issues raised in the Warning Letter and in previous inspections of the Añasco Facility. At the conclusion of the inspection, the FDA found that the Company had addressed the issues raised in the Warning Letter and previous inspectional observations, and it issued no other inspectional observations. In reaching this conclusion, the FDA determined that the Company’s remediation activities were effective and its quality management system was adequate.

The FDA Safety and Innovation Act (FDASIA), which includes the Medical Device User Fee Amendments of 2012 (MDUFA III), as well as other medical device provisions, went into effect October 1, 2012. 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. This will affect the fees paid to the FDA over the five-year period that FDASIA is in effect. As part of FDASIA, there are also new requirements regarding FDA Establishment Registration and Listing of Medical Devices. All 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. From this business practice, it is possible that some of our foreign contract manufacturers will not comply with the new requirements and choose not to register with the FDA. 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.

The FDA issued a final rule on September 24, 2013 to establish a system to adequately identify devices through distribution and use. This rule requires the label of medical devices to include a unique device identifier (“UDI”), except where the rule provides for an exception or alternative placement. The labeler must submit product information concerning devices to FDA's Global Unique Device Identification Database, unless subject to an exception or alternative. The system established by this rule requires the label and device package of each medical device to include a UDI and requires that each UDI be provided in a plain-text version and in a form that uses automatic identification and data capture technology. If the device is intended to be used more than once and intended to be reprocessed before each use, then there is a requirement for the UDI to be directly marked on the device itself. This regulation will require significant resources and expense to comply with the regulation.

In addition, some of our orthobiologics products are subject to FDA and certain state regulations regarding human cells, tissues, and cellular or tissue-based products, which include requirements for Establishment Registration and listing, donor eligibility, current good tissue practices, labeling, adverse-event reporting, and inspection and enforcement. Some states have their own tissue banking regulation. We are licensed or have permits as a tissue bank in California, Florida, New York and Maryland. In addition, tissue banks may undergo voluntary accreditation by the American Association of Tissue Banks (the “AATB”). The AATB has issued operating standards for tissue banking. Compliance with these standards is a requirement in order to become a licensed tissue bank. Finally, the FDA issued new regulations regarding “Current Good Manufacturing Practice Requirements for Combination Products” on January 22, 2013. These new regulations apply to some of our product lines that have been designated by the FDA as Combination Products. There will be additional costs associated with compliance with these new Good Manufacturing Practice Requirements regulations for Combination Products.

We manufacture medical devices that are subject to various electrical safety standards. Many countries have adopted the recommendations of the International Electrotechnical Commission (“IEC”) for the safety and effectiveness of medical electrical equipment. The IEC is a non-profit, non-governmental international standards organization that prepares and publishes International Standards for all electrical, electronic and related technologies. Their updated standards were implemented in some markets starting in July 2012 and have continued to be adopted over the following years worldwide. If we cannot comply with these standards, we may not be able to sell some of our products in the affected markets. Most of our affected products have already been modified to meet the new standards and are substantially in compliance with these standards. Except in limited circumstances, we do not anticipate any delays in selling our products in the markets that have adopted the IEC updated standards.

In addition, the 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 increasingly stringent and more common, and we may become subject to even more rigorous regulation by foreign governmental authorities in the future. 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. Any domestic or foreign governmental medical device law or regulation imposed in the future may have a material adverse effect on our financial condition and business operations.

Table of Contents

Certain of our products contain materials derived from animal sources and may become subject to additional regulation.

Certain of our products, including our dermal regeneration products, duraplasty products, biomaterial products for the spine, nerve and tendon repair products and certain other products, contain material derived from bovine tissue. In 2013 approximately 23% of our revenues were attributable to products containing material derived from bovine tissue. Products that contain materials derived from animal sources, including food, pharmaceuticals and medical devices, are subject to scrutiny in the media and by regulatory authorities. Regulatory authorities are concerned about the potential for the transmission of disease from animals to humans via those materials. This public scrutiny has been particularly acute in Japan and Western Europe with respect to products derived from animal sources, because of concern that materials infected with the agent that causes bovine spongiform encephalopathy, otherwise known as BSE or mad cow disease, may, if ingested or implanted, cause a variant of the human Creutzfeldt-Jakob Disease, an ultimately fatal disease with no known cure. Cases of BSE in cattle discovered in Canada and the United States have increased awareness of the issue in North America. In 2013, the World Organization for Animal Health (OIE) recommended that the United States risk classification for BSE be upgraded from controlled risk to negligible risk.

We take care to provide that our products are safe and free of agents that can cause disease. In particular, we have qualified a source of collagen from a country outside the United States that is considered BSE-free. The World Health Organization classifies different types of cattle tissue for relative risk of BSE transmission. Deep flexor tendon is in the lowest-risk categories for BSE transmission (the same category as milk, for example), and is therefore considered to have a negligible risk of containing the agent that causes BSE (an improperly folded protein known as a prion). Nevertheless, products that contain materials derived from animals, including our products, could become subject to additional regulation, or even be banned in certain countries, because of concern over the potential for the transmission of prions. Significant new regulation, or a ban of our products, could have a material adverse effect on our current business or our ability to expand our business.

Certain countries, such as Japan, China, Taiwan and Argentina, have issued regulations that require our collagen products be processed from bovine tendon sourced from countries where no cases of BSE have occurred, and the EU has requested that our dural replacement products and other products that are used in neurological tissue be sourced from bovine tendon sourced from a country where no cases of BSE have occurred. Currently, we purchase our tendon from the United States and New Zealand. We received approval in the United States, the EU, Japan, Taiwan, China, Argentina as well as other countries for the use of New Zealand-sourced tendon in the manufacturing of our products. If we cannot continue to use or qualify a source of tendon from New Zealand or another country that has never had a case of BSE, we will not be permitted to sell our collagen products in certain countries.

If any of our manufacturing facilities were damaged and/or our manufacturing or business processes interrupted, we could experience lost revenues and our business could be seriously harmed.

Damage to our manufacturing, development or research facilities because of fire, extreme weather conditions, natural disaster, power loss, communications failure, unauthorized entry or other events, such as a flu or other health epidemic, could cause us to cease development and manufacturing of some or all of our products. In particular, our San Diego, Vista, and Irvine, California facilities are susceptible to earthquake damage, wildfire damage and power losses from electrical shortages as are other businesses in Southern California. Our Añasco, Puerto Rico plant, where we manufacture collagen, silicone and our private-label products, is vulnerable to hurricane, storm, earthquake and wind damage. Our Plainsboro, New Jersey facility is vulnerable to hurricane damage. Although we maintain property damage and business interruption insurance coverage on these facilities, our insurance might not cover all losses under such circumstances, and we may not be able to renew or obtain such insurance in the future on acceptable terms with adequate coverage or at reasonable costs.

In addition, certain of our surgical instruments have some manufacturing processes performed by third parties in Pakistan, which is subject to political instability and unrest, and we purchase a much smaller amount of instruments directly from vendors there. Such instability could interrupt our ability to sell surgical instruments to our customers and could have a material adverse effect on our revenues and earnings. While we have developed a relationship with

an alternative provider of these services in another country, and continue to work to develop other providers in other countries, we cannot guarantee that we will be completely successful in establishing all of these relationships. Even if we are successful in establishing all of these alternative relationships, we cannot guarantee that we will be able to do so at the same level of costs or that we will be able to pass along additional costs to our customers.

Further, we manufacture certain products in Europe and our European headquarters is located in France, which has experienced labor strikes. Thus far, strikes have not had a material impact on our business; however, if such strikes were to occur, there is no assurance that they would not disrupt our business, and any such disruption could have a material adverse effect on our business.

An experienced third party hosts and maintains the enterprise business system used to support certain of our transaction processing for accounting and financial reporting, supply chain and manufacturing. Currently, we have developed a comprehensive

Table of Contents

disaster recovery plan for the Company's infrastructure. As we have not fully tested the plan, we have adopted alternative solutions to mitigate business risk, including backup equipment, power and communications. We also implemented a comprehensive backup and recovery process for our key software applications. Our global production and distribution operations are dependent on the effective management of information flow between facilities. An interruption of the support provided by our enterprise business systems could have a material adverse effect on the business.

We are dependent on information technology and if we fail to properly maintain the integrity of our data, our business could be materially affected.

We are increasingly dependent on sophisticated information technology for our infrastructure and to support business decisions. As a result of technology initiatives, recently enacted regulations, changes in our system platforms and integration of new business acquisitions, we have been consolidating and integrating the number of systems. Our information systems require an ongoing commitment of significant resources to maintain, protect, and enhance existing systems and develop new systems to keep pace with continuing changes in information processing technology, evolving systems and regulatory standards, the increasing need to protect patient and customer information, and changing customer patterns. Any significant breakdown, intrusion, interruption, corruption, or destruction of these systems, as well as any data breaches, could have a material adverse effect on our business.

In addition, third parties may attempt to breach our systems and may obtain data relating to patients, the Company's proprietary information or other sensitive data. If we fail to maintain or protect our information systems and data integrity effectively, we could lose existing customers, have difficulty attracting new customers, suffer backlash from negative public relations, have problems in determining product cost estimates and establishing appropriate pricing, have difficulty preventing, detecting, and controlling fraud, have disputes with customers, physicians, and other health care professionals, have regulatory sanctions or penalties imposed, have increases in operating expenses, incur expenses or lose revenues as a result of a data privacy breach, or suffer other adverse consequences.

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

On October 23, 2012, our Board of Directors authorized a repurchase of up to \$75.0 million of outstanding common stock through December 2014. Shares may be repurchased either in the open market or in privately negotiated transactions.

There were no repurchases of our common stock during the three months ended September 30, 2014 under this program.

Subsequent to September 30, 2014, on October 28, 2014, our Board of Directors terminated the previous share repurchase plan dated October 23, 2012, and authorized a new repurchase of up to \$75.0 million of outstanding common stock through December 2016. Shares may be repurchased either in the open market or in privately negotiated transactions.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None

45

Table of Contents

ITEM 6. EXHIBITS

- 2.1 Stock and Asset Purchase Agreement by and among Medtronic, Inc., Medtronic Xomed Instrumentation, SAS, and Integra LifeSciences Corporation, dated as of September 12, 2014 (Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on October 27, 2014)
- 4.1 Third Amended and Restated Credit Agreement, dated as of July 2, 2014, among Integra LifeSciences Holdings Corporation, the other lenders party hereto, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, Wells Fargo Bank, National Association, as Syndication Agent and HSBC Bank USA, National Association, Royal Bank of Canada, Citizens Bank, National Association, DNB Capital LLC, Credit Agricole-Corporate and Investment Bank and TD Bank, N.A., as Co-Documentation Agents. (Incorporated by Reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on July 9, 2014)
- 4.2 Ratification Agreement, dated as of July 2, 2014, between Integra LifeSciences Holdings Corporation, the Subsidiary Guarantors of Integra LifeSciences Holdings Corporation and Bank of America, N.A., as Administrative Agent. (Incorporated by Reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on July 9, 2014)
- 18.1 Preferability letter of independent registered public accounting firm (Incorporated by Reference to Exhibit 18 to the Company's Form 10-Q for the quarter ended March 31, 2014)
- *31.1 Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31.2 Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *32.1 Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- *32.2 Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- *†101.INS XBRL Instance Document
- *†101.SCH XBRL Taxonomy Extension Schema Document
- *†101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- *†101.DEF XBRL Definition Linkbase Document
- *†101.LAB XBRL Taxonomy Extension Labels Linkbase Document
- *†101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- * Filed herewith

† The financial information of Integra LifeSciences Holdings Corporation Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 filed on November 7, 2014 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.

Table of Contents

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: November 7, 2014

/s/ Peter J. Arduini
Peter J. Arduini
President and Chief Executive Officer

Date: November 7, 2014

/s/ Glenn G. Coleman
Glenn G. Coleman
Corporate Vice President and Chief Financial Officer

Table of Contents

Table of Contents

Exhibits

2.1	Stock and Asset Purchase Agreement by and among Medtronic, Inc., Medtronic Xomed Instrumentation, SAS, and Integra LifeSciences Corporation, dated as of September 12, 2014 (Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on October 27, 2014)
4.1	Third Amended and Restated Credit Agreement, dated as of July 2, 2014, among Integra LifeSciences Holdings Corporation, the other lenders party hereto, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, Wells Fargo Bank, National Association, as Syndication Agent and HSBC Bank USA, National Association, Royal Bank of Canada, Citizens Bank, National Association, DNB Capital LLC, Credit Agricole-Corporate and Investment Bank and TD Bank, N.A., as Co-Documentation Agents. (Incorporated by Reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on July 9, 2014)
4.2	Ratification Agreement, dated as of July 2, 2014, between Integra LifeSciences Holdings Corporation, the Subsidiary Guarantors of Integra LifeSciences Holdings Corporation and Bank of America, N.A., as Administrative Agent. (Incorporated by Reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on July 9, 2014)
18.1	Preferability letter of independent registered public accounting firm (Incorporated by Reference to Exhibit 18 to the Company's Form 10-Q for the quarter ended March 31, 2014)
*31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32.2	Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*†101.INS	XBRL Instance Document
*†101.SCH	XBRL Taxonomy Extension Schema Document
*†101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
*†101.DEF	XBRL Definition Linkbase Document
*†101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
*†101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

† The financial information of Integra LifeSciences Holdings Corporation Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 filed on November 7, 2014 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.

48