INTEGRA LIFESCIENCES HOLDINGS CORP
Form 10-Q
July 28, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
COMMISSION FILE NO. 0-26224

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

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

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

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

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

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

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

The number of shares of the registrant’s Common Stock, $0.01 par value, outstanding as of July 26, 2016 was 37,360,514.

Table of Contents

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
INDEX

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Total revenue, net | $249,309 | $212,673 | $486,079 | $415,207 |
| Costs and expenses: | | | | |
| Cost of goods sold | 89,565 | 75,251 | 174,338 | 150,472 |
| Research and development | 14,679 | 12,012 | 29,130 | 23,091 |
| Selling, general and administrative | 119,217 | 99,318 | 231,192 | 192,583 |
| Intangible asset amortization | 3,471 | 1,747 | 6,943 | 3,476 |
| Total costs and expenses | 226,932 | 188,328 | 441,603 | 369,622 |
| Operating income | 22,377 | 24,345 | 44,476 | 45,585 |
| Interest income | 6 | 8 | 12 | 13 |
| Interest expense | (6,588) | (5,485) | (12,961) | (10,957) |
| Other income (expense), net | (852) | (860) | (1,590) | 1,157 |
| Income from continuing operations before income taxes | 14,943 | 18,008 | 29,937 | 35,798 |
| Income tax expense | 2,188 | 5,988 | 3,764 | 12,046 |
| Income from continuing operations | 12,755 | 12,020 | 26,173 | 23,752 |
| Loss from discontinued operations (net of tax benefit) | — | (7,022) | — | (10,370) |
| Net income | $12,755 | $4,998 | $26,173 | $13,382 |
| | | | | |
| Net income per share - basic: | | | | |
| Income from continuing operations | $0.34 | $0.36 | $0.71 | $0.72 |
| Loss from discontinued operations | — | (0.21) | — | (0.32) |
| Net income per share - basic | $0.34 | $0.15 | $0.71 | $0.40 |
| | | | | |
| Net income per share - diluted: | | | | |
| Income from continuing operations | $0.32 | $0.35 | $0.68 | $0.71 |
| Loss from discontinued operations | — | (0.21) | — | (0.31) |
| Net income per share - diluted | $0.32 | $0.14 | $0.68 | $0.40 |
| | | | | |
| Weighted average common shares outstanding (See Note 11): | | | | |
| Basic | 37,196 | 33,032 | 37,037 | 32,884 |
| Diluted | 39,355 | 33,939 | 38,771 | 33,644 |
| Comprehensive income (loss) (See Note 12) | $5,844 | $12,325 | $30,499 | $(3,418) |

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)

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $86,803 | $48,132 |
| Restricted cash and cash equivalents | — | 4,073 |
| Trade accounts receivable, net of allowances of $6,023 and $5,572 | 145,571 | 132,241 |
| Inventories, net | 220,442 | 211,429 |
| Prepaid expenses and other current assets | 41,170 | 42,620 |
| Total current assets | 493,986 | 438,495 |
| Property, plant and equipment, net | 208,648 | 205,181 |
| Intangible assets, net | 583,569 | 603,740 |
| Goodwill | 514,023 | 512,389 |
| Deferred tax assets | 7,062 | 6,932 |
| Other assets | 6,874 | 7,487 |
| Total assets | $1,814,162 | $1,774,224 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Borrowings under senior credit facility | $21,250 | $14,375 |
| Accounts payable, trade | 43,954 | 34,772 |
| Deferred revenue | 8,151 | 5,666 |
| Accrued compensation | 38,435 | 45,154 |
| Accrued expenses and other current liabilities | 38,037 | 39,160 |
| Total current liabilities | 149,827 | 139,127 |
| Long-term borrowings under senior credit facility | 461,250 | 481,875 |
| Long-term convertible securities | 223,041 | 218,240 |
| Deferred tax liabilities | 156,337 | 154,891 |
| Other liabilities | 28,920 | 28,648 |
| Total liabilities | 1,019,375 | 1,022,781 |
| 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; 46,238 and 45,857 issued at June 30, 2016 and December 31, 2015, respectively | 462 | 459 |
| Additional paid-in capital | 1,032,970 | 1,020,128 |
| Treasury stock, at cost; 8,915 shares at June 30, 2016 and December 31, 2015 | (367,121) | (367,121) |
| Accumulated other comprehensive loss | (43,576) | (47,902) |
| Retained earnings | 172,052 | 145,879 |
| Total stockholders' equity | 794,787 | 751,443 |
| Total liabilities and stockholders' equity | $1,814,162 | $1,774,224 |

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

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

| | Six Months Ended June 30, 2016 | 2015 |
|---|---|---|
| OPERATING ACTIVITIES: | | |
| Net income | $26,173 | $13,382 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Loss from discontinued operations, net of tax | — | 10,370 |
| Depreciation and amortization | 36,267 | 24,362 |
| Deferred income tax | (642) | 1,565 |
| Amortization of debt issuance costs | 1,236 | 1,060 |
| Non-cash interest expense | 4,168 | 3,744 |
| Loss on disposal of property and equipment | 1,184 | 38 |
| Change in fair value of contingent consideration | 251 | 239 |
| Share-based compensation | 7,897 | 5,419 |
| Changes in assets and liabilities, net of business acquisitions: | | |
| Accounts receivable | (13,525) | (5,192) |
| Inventories | (7,362) | (6,118) |
| Prepaid expenses and other current assets | 4,362 | 903 |
| Other non-current assets | (571) | (1,806) |
| Accounts payable, accrued expenses and other current liabilities | 2,237 | 23,951 |
| Deferred revenue | 2,510 | (805) |
| Other non-current liabilities | (1,076) | 700 |
| Net cash provided by operating activities of continuing operations | 63,109 | 71,812 |
| Net cash used in operating activities of discontinued operations | — | (12,209) |
| Net cash provided by operating activities | 63,109 | 59,603 |
| INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (19,162) | (14,953) |
| Sale of property and equipment | — | 1,438 |
| Cash received from business acquisition purchase price adjustment | 224 | 1,831 |
| Change in restricted cash | 4,165 | — |
| Net cash used in investing activities of continuing operations | (14,773) | (11,684) |
| Net cash used in investing activities of discontinued operations | — | (7,060) |
| Net cash used in investing activities | (14,773) | (18,744) |
| FINANCING ACTIVITIES: | | |
| Borrowings under senior credit facility | 15,000 | 35,000 |
| Repayments under senior credit facility | (28,750) | (15,000) |
| Principal payments under capital lease obligations | (323) | (396) |
| Proceeds from exercised stock options | 9,260 | 7,345 |
| Cash taxes paid in net equity settlement | (4,269) | (6,359) |
| Net cash (used in) provided by financing activities | (9,082) | 20,590 |
| Effect of exchange rate changes on cash and cash equivalents | (583) | (2,146) |
| Net increase in cash and cash equivalents | 38,671 | 59,303 |
| Cash and cash equivalents at beginning of period | 48,132 | 71,734 |
| Cash and cash equivalents at end of period | $86,803 | $131,037 |

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

Table of Contents

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

## 1. BASIS OF PRESENTATION

### General

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

In the opinion of management, the June 30, 2016 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, 2015 included in the Company’s Annual Report on Form 10-K. The December 31, 2015 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 six-month periods ended June 30, 2016 are not necessarily indicative of the results to be expected for the entire year.

On July 1, 2015, the Company completed the distribution of 100% of the outstanding common shares of SeaSpine Holdings Corporation ("SeaSpine") to Integra shareholders who received one share of SeaSpine common stock for every three shares of Integra common stock held as of the close of business on the record date, June 19, 2015. The Company has classified the results of operations and cash flows of SeaSpine as discontinued operations for the three- and six-month periods ended June 30, 2015 presented in the Company's Form 10-Q. Unless indicated otherwise, the information in the Notes to the condensed consolidated financial statements relates to the Company's continuing operations. Refer to Note 2 - Discontinued Operations, for additional information regarding the distribution.

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 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.

### Recently Issued Accounting Standards

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 will become effective for all annual periods and interim reporting periods beginning after December 15, 2017. Early adoption as of January 1, 2017 is 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 and interim reporting periods beginning after December 15, 2015. The Company adopted this guidance effective January 1, 2016 on a prospective basis. The implementation of the amended guidance did not have a material impact on the Company's consolidated financial position or results of operations.

In August 2014, the FASB issued Update No. 2014-15, Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. The amendment requires management to evaluate, for each annual and interim reporting period, whether there are conditions and events, considered in the aggregate, that raise substantial doubt about an entity’s ability to continue as a going concern within one year after the date the financial statements are issued or are available to be issued. If substantial doubt is raised, additional disclosures around management’s plan to alleviate these doubts are required. This update will become effective for all annual periods and interim reporting periods beginning after December 15, 2016. The implementation of the amended guidance is not expected to have an impact on current disclosures in the financial statements.

In April 2015, the FASB issued Update No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. The amendment requires that all costs incurred to issue certain debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. The new standard is limited to the presentation of debt issuance costs and does not affect the recognition or measurement of debt issuance costs. This update is effective for all annual periods and interim reporting periods beginning after December 15, 2015. The Company adopted this guidance effective January 1, 2016 on a retrospective basis. The implementation of the amended guidance did not have a material impact on the consolidated results of operations and resulted in a reclassification of a portion of the debt issuance costs from other long-term assets to long-term debt.

In July 2015, the FASB issued Update No. 2015-11, Simplifying the Measurement of Inventory. The amendment requires an entity to measure inventory that is within the scope of this amendment at the lower of cost and net realizable value. Existing impairment models will continue to be used for inventories that are accounted for using the last-in first-out (“LIFO”) method. The ASU requires prospective adoption for inventory measurements for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years for public business entities. Early adoption is permitted. The implementation of the amended guidance is not expected to have a material impact on the consolidated financial position or results of operations.

In August 2015, the FASB issued Update No. 2015-15, Interest - Imputation of Interest. The amendment requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. The guidance in ASU No. 2015-03 does not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Given the absence of authoritative guidance within ASU No. 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity's deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. This update is effective for all annual periods and interim reporting periods beginning after December 15, 2015. The Company adopted this guidance effective January 1, 2016 on a retrospective basis. The implementation of the amended guidance did not have a material impact on the consolidated financial position or results of operations.

In September 2015, the FASB issued Update No. 2015-16, Simplifying the Accounting for Measurement-Period Adjustments. The amendment requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This update also requires an entity to present separately in the income statement or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This update is effective for all annual periods and interim reporting periods beginning after December 15, 2015. The new standard must be applied prospectively to adjustments to provisional amounts that occur after the effective date. The implementation of the amended guidance did not have a material impact on the consolidated results of operations or disclosures in the financial statements.

In November 2015, the FASB issued Update No. 2015-17, Income Taxes (Topic 740). Under current accounting guidance an entity is required to separate deferred income tax liabilities and assets into current and non-current amounts in a classified statement of financial position. The amendment requires that an entity present all deferred tax assets and liabilities as non-current in a classified statement of financial position. This update will become effective for all annual periods and interim reporting periods beginning after December 15, 2016, however the Company adopted this guidance effective December 31, 2015 on a prospective basis.

In February 2016, the FASB issued Update No. 2016-02, Leases (Topic 842). Under current accounting guidance an entity is not required to report operating leases on the balance sheet. The amendment requires that lessees recognize virtually all of their leases on the balance sheet, by recording a right-of-use asset and lease liability (other than leases that meet the definition of a "short-term lease"). This update will become effective for all annual periods and interim reporting periods beginning after December 15,

2018. The new standard must be adopted using a modified retrospective transition. Early adoption is permitted. The Company is in the process of evaluating the impact of this standard on its financial statements.

In March 2016, the FASB issued Update No. 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718) (ASU 2016-09), which simplifies several aspect of the accounting for share-based payment. Under current accounting guidance an entity is required to report excess tax benefits and tax deficiencies, to the extent of previous windfalls, in equity when an award is settled. A tax benefit currently only recognized when it is realized. Excess tax benefits at settlements are currently reported as cash inflows from financing activities. The amendment requires that an entity present all excess tax benefits and all tax deficiencies as income tax expense or benefit in the statement of operations to be applied using a prospective transition method. Related tax effects of share-based payment settlements are to be presented as cash inflows from operating activities with a transition method of either a prospective or retrospective transition method. The amendment also removes the requirement to delay recognition of an excess tax benefit until the tax benefit is realized. A modified retrospective transition method must be applied for this provision of amendment. ASU 2016-09 allows the Company to elect to account for forfeitures either based on an estimate of the number of awards for which the requisite service period is not expected be rendered with a true-up for actual forfeitures or to account for forfeitures as they occur. The amendment also requires cash outflows attributable to tax withholdings on the net settlement of equity-classified awards to be classified in financing cash flows, with any changes to be applied retrospectively. ASU 2016-09 is effective for all annual periods and interim reporting periods beginning after December 15, 2016. Early adoption is permitted.

The Company elected to early adopt ASU 2016-09 during the quarter ended June 30, 2016, which requires any adjustments to be reflected as of January 1, 2016, the beginning of the annual period that includes the interim period of adoption. The Company elected to account for forfeitures as they occur. The impact in retained earnings as of December 31, 2015 from this provision was not significant. Amendments related to accounting for excess tax benefits have been adopted prospectively, resulting in recognition of excess tax benefits against income tax expenses rather than additional paid-in capital of $1.2 million and $3.0 million for the three and six months ended June 30, 2016, respectively. Amendments related to the condensed consolidated statement of cash flows have been adopted retrospectively. As a result of this adoption, the excess tax settlement and taxes on net settlement of $7.2 million was included in net cash provided by operating activities for the six months ended June 30, 2016. The six months ended June 30, 2015 was adjusted as follows: a $9.9 million increase to net cash provided by operating activities and a $9.9 million decrease in net cash provided by financing activities.

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

## 2. DISCONTINUED OPERATIONS

On October 29, 2014, Integra's Board of Directors approved the announcement of a plan to separate the Company's spine and orthobiologics businesses, now known as SeaSpine Holdings Corporation, from Integra as a new, publicly traded medical technology company focused on the design, development and commercialization of surgical solutions for the treatment of patients suffering from spinal disorders. Integra's board of directors based this determination, in part, on its belief that the tax-free distribution of SeaSpine's shares to Integra stockholders is the most efficient manner to separate the business from Integra's other medical technology businesses. On November 3, 2014, the Company announced its intention to separate its spine business, which was previously a separate reportable segment. On July 1, 2015, the Company completed the distribution of 100% of the outstanding common stock of SeaSpine to Integra's stockholders, who received one share of SeaSpine common stock for every three shares of Integra common stock held as of the close of business on the record date, June 19, 2015. The Company and SeaSpine share three board members, including the chair of Integra’s board of directors, who is lead director for SeaSpine. The separation agreement provided SeaSpine with approximately $47.0 million of total cash immediately following the distribution. No gain or loss was recognized on the part of the Company or shareholders as a result of the distribution resulting from the separation of the spine business.

The historical results of operations, cash flows, and statement of financial position of SeaSpine have been presented as discontinued operations in the condensed consolidated financial statements and prior periods have been restated. Discontinued operations include results of SeaSpine's business except for certain allocated corporate overhead costs and certain costs associated with transition services provided by Integra to SeaSpine. These allocated costs remain part of continuing operations. Discontinued operations also include other costs incurred by Integra to separate SeaSpine from the fourth quarter of 2014 through the second quarter of 2015. These costs include transaction charges, advisory and consulting fees, and information system expenses. Since the third quarter of 2015, SeaSpine is a stand-alone public company that separately reports its financial results. Due to differences between the basis of presentation for discontinued operations and the basis of presentation as a stand-alone company, the financial results of SeaSpine included within discontinued operations for the Company may not be indicative of actual financial results of SeaSpine as a stand-alone company.

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

The following table summarizes results from discontinued operations of SeaSpine included in the condensed consolidated statement of operations:

| | Three Months Ended June 30, 2015 | Six Months Ended June 30, 2015 |
|---|---|---|
| | (in thousands) | |
| Total revenue | $33,461 | $65,775 |
| Costs and expenses | 43,852 | 80,618 |
| Operating loss | (10,391 ) | (14,843 ) |
| Other income (expense), net | (45 ) | (766 ) |
| Loss from discontinued operations before tax | (10,436 ) | (15,609 ) |
| Benefit for income taxes | (3,414 ) | (5,239 ) |
| Net loss from discontinued operations | $(7,022 ) | $(10,370) |

The removal of SeaSpine's net assets and unrealized accelerated currency translation adjustment was presented as a reduction in Integra's retained earnings.

In order to effect the separation and govern Integra's relationship with SeaSpine after the separation, the Company entered into a Separation and Distribution Agreement and other agreements, including a Tax Matters Agreement, an Employee Matters Agreement, several supply agreements, and a Transition Services Agreement. The Separation and Distribution Agreement governs the separation of the spine business, the transfer of assets and other matters related to the Company's relationship with SeaSpine.

The Tax Matters Agreement governs the respective rights, responsibilities and obligations of SeaSpine and Integra with respect to taxes, tax attributes, tax returns, tax proceedings and certain other tax matters.

The Employee Matters Agreement governs the compensation and employee benefit obligations with respect to the current and former employees and non-employee directors of SeaSpine and Integra, and generally allocates liabilities and responsibilities relating to employee compensation, benefit plans and programs. The Employee Matters Agreement provides that employees of SeaSpine will no longer participate in benefit plans sponsored or maintained by Integra. In addition, the Employee Matters Agreement provides that each of the parties will be responsible for their respective former and current employees and compensation plans for such current employees.

The Company entered into several Supply Agreements in which SeaSpine engaged Integra to be the product supplier of Integra's former Integra Mozaik™ product line ("Mozaik") for a three-year period following the separation, after which there will be no defined terms and this will be considered a normal purchase/sale arrangement. This product line has been licensed to SeaSpine in conjunction with the spin-off. Prior to the spin-off, sales of Mozaik products from an Integra facility to a SeaSpine facility were eliminated in Integra's historical consolidated financial results of operations. The revenue and cost of goods sold related to prior sales of Mozaik to SeaSpine have been restated and are presented in Integra's continuing operations as results of operations. The Company has recorded $0.5 million and $2.0 million in revenue related to the sale of Mozaik products for the three-month period ended June 30, 2016 and 2015, respectively, and $0.6 million and $3.2 million, respectively for the six-month periods ended June 30, 2016 and 2015. The Company has recorded the related cost of goods sold of approximately $0.5 million and $2.0 million in for the three-months periods ended June 30, 2016 and 2015, respectively and $0.6 million and $3.2 million for the six-month periods ended June 30, 2016 and 2015, respectively, in its continuing operations.

Under the terms of the Transition Services Agreement, the Company agreed to provide administrative, site services, information technology systems and various other corporate and support services to SeaSpine over various periods after the separation on a cost or cost-plus basis. The most significant components of the service income are the provision of information systems and legal services, which were substantially completed during the first quarter of 2016. In the three- and six-month periods ended June 30, 2016 other income (expense), net, includes a minimal amount and $0.3 million, respectively of income in respect of the provision of services to SeaSpine.

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

## 3. BUSINESS ACQUISITIONS

### Tekmed

On December 15, 2015, the Company acquired the assets of Tekmed Instruments S.p.A ("Tekmed") for an aggregate purchase price of $14.1 million including a minimal amount of working capital and purchase adjustment which was recorded as an adjustment to assumed liabilities. Tekmed was a distributor of the Company's and third-party products in Italy and focuses on neurosurgery and neurotrauma, along with representation in plastic and reconstructive surgery, cardiovascular surgery, image diagnostics, general surgery, anesthesia and intensive care, interventional radiology, and proton therapy. This acquisition enables the Company to sell directly into the market to support our Specialty Surgical Solutions division's growth in Italy along with other key Integra franchises.

The Company recorded revenue for Tekmed of approximately $1.2 million and $2.4 million related to third party products in the consolidated statements of operations for the three and six months ended June 30, 2016. The net income or loss attributable to this acquisition cannot be identified on a stand-alone basis because it is in the process of being integrated into the Company's operations.

The following summarizes the preliminary allocation of the purchase price as of June 30, 2016 based on the fair value of the assets acquired and liabilities assumed:

| | Preliminary Purchase Price Allocation (Dollars in thousands) | |
|---|---|---|
| Inventory | $ 1,143 | |
| Other current assets | 11 | |
| Property, plant, and equipment | 669 | |
| Intangible assets: | | Wtd. Avg. Life: |
| Supplier contracts | 4,981 | 2 -13 Years |
| Goodwill | 9,665 | |
| Total assets acquired | 16,469 | |
| Accrued expenses and other liabilities | 802 | |
| Deferred tax liabilities | 1,564 | |
| Net assets acquired | $ 14,103 | |

### Tornier's United States Toe & Ankle Business

On October 2, 2015, the Company acquired the United States rights to Tornier's Salto Talaris® and Salto Talaris® XT ankle replacement products and Tornier's Futura™ silastic toe replacement products (the "Salto and Futura") for $6.0 million in cash. The estimated fair value of the net assets acquired exceeded the purchase price for the Salto and Futura product lines and resulted in the Company's recording a gain of $1.1 million for the year ended December 31, 2015 in Other Income. The acquired toe and ankle products enhance the Company's lower extremities product offering and accelerate its entry into the U.S. total ankle replacement market.

The Company recorded revenue for Salto and Futura of approximately $3.4 million and $7.3 million in the consolidated statements of operations for the three and six months period ended June 30, 2016. The net income or loss attributable to this acquisition cannot be identified on a stand-alone basis because it is in the process of being integrated into the Company's operations.

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

The following summarizes the allocation of the purchase price as of June 30, 2016 based on the fair value of the assets acquired and liabilities assumed:

| | Purchase Price Allocation (Dollars in thousands) | |
|---|---|---|
| Inventory | $ 2,688 | |
| Property, plant, and equipment | 1,453 | |
| Intangible assets: | | Wtd. Avg. Life: |
| Ankle product family | 3,210 | 11 years |
| Toe product family | 460 | 10 years |
| Total assets acquired | 7,811 | |
| Deferred tax liabilities | 700 | |
| Net assets acquired | $ 7,111 | |

TEI

On July 17, 2015, the Company executed the two merger agreements (collectively, the "Agreements") under which the Company acquired TEI Biosciences, Inc., a Delaware corporation ("TEI Bio"), and TEI Medical Inc., a Delaware corporation ("TEI Med", collectively "TEI") for an aggregate purchase price of approximately $312.2 million ($210.9 million for TEI Bio and $101.3 million for TEI Med) including working capital and purchase price adjustment of $0.2 million ($0.5 million for TEI Bio offset by $0.7 million cash received for TEI Med) which was recorded as a reduction from goodwill. The purchase price consists of a cash payment to the former shareholders of TEI Bio and TEI Med of approximately $312.4 million upon the closing of the transaction, net of $1.2 million of acquired cash. TEI Bio is in the business of developing and commercializing biologic devices for soft tissue repair and regenerative applications, including dura and hernia repair and plastic and reconstructive surgery. TEI Med holds a license to TEI Bio’s regenerative technology in the fields of wound healing and orthopedics.

The Company recorded revenue for TEI of approximately $12.4 million and $26.0 million in the condensed consolidated statements of operations for the three and six months ended June 30, 2016. The net income or loss attributable to this acquisition cannot be identified on a stand-alone basis because it is in the process of being integrated into the Company's operations.

The following summarizes the allocation of the purchase price as of June 30, 2016 based on the fair value of the assets acquired and liabilities assumed:

| | Purchase Price Allocation (Dollars in thousands) | |
|---|---|---|
| Cash | $ 1,241 | |
| Accounts receivable, net | 9,011 | |
| Inventory | 23,223 | |
| Income tax receivable | 5,135 | |
| Other current assets | 2,670 | |
| Property, plant, and equipment | 2,027 | |
| Intangible assets: | | Wtd. Avg. Life: |
| Developed technology | 167,400 | 14 -16 Years |
| Contractual relationships | 51,345 | 11 -14 Years |

| | |
|---|---|
| Leasehold interest | 69 |
| Goodwill | 147,704 |
| Total assets acquired | 409,825 |
| Accrued expenses and other liabilities | 9,732 |
| Deferred tax liabilities | 87,908 |
| Net assets acquired | $ 312,185 |

11

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

Pro Forma Results

The following unaudited pro forma financial information summarizes the results of operations for the three and six months ended June 30, 2015 as if the acquisitions completed by the Company during 2015 had been completed as of the beginning of the prior year. 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 of the year prior to the acquisition 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.

| | Three Months Ended June 30, 2015 | Six Months Ended June 30, 2015 |
|---|---|---|
| | (In thousands, except per share amounts) | |
| Total revenue | $235,357 | $460,828 |
| Net income | $13,585 | $26,892 |
| Net income per share: | | |
| Basic | $0.41 | $0.82 |

## 4. INVENTORIES

Inventories, net consisted of the following:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| | (In thousands) | |
| Finished goods | $128,432 | $ 125,869 |
| Work in process | 50,232 | 47,962 |
| Raw materials | 41,778 | 37,598 |
| | $220,442 | $ 211,429 |

## 5. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill for the six-month period ended June 30, 2016 were as follows:

| | Specialty Surgical Solutions | Orthopedics and Tissue Technologies | Total |
|---|---|---|---|
| | (In thousands) | | |
| Goodwill at December 31, 2015 | $284,976 | $ 227,413 | $512,389 |
| TEI working capital and purchase price adjustment | — | (174) | (174) |
| Foreign currency translation | 1,006 | 802 | 1,808 |

| | | | |
|---|---|---|---|
| Balance, June 30, 2016 | $285,982 | $ 228,041 | $514,023 |

12

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

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

| | June 30, 2016 | | | |
|---|---|---|---|---|
| | Weighted Average Life | Cost | Accumulated Amortization | Net |
| | (Dollars in thousands) | | | |
| Completed technology | 17 years | $480,599 | $ (81,750 ) | $398,849 |