INTEGRA LIFESCIENCES HOLDINGS CORP
Form 10-K
February 23, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 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	51-0317849
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
311 ENTERPRISE DRIVE PLAINSBORO, NEW JERSEY	08536
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (609) 275-0500
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, Par Value $.01 Per Share	The Nasdaq Stock Market LLC

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
NONE
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act. Yes o
No x
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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

1

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

As of June 30, 2016, the aggregate market value of the registrant’s common stock held by non-affiliates was approximately $2,393.5 million based upon the closing sales price of the registrant’s common stock on The Nasdaq Global Market on such date. The number of shares of the registrant’s Common Stock, $0.01 par value, outstanding as of February 21, 2017 was 74,816,177.

DOCUMENTS INCORPORATED BY REFERENCE:

Certain portions of the registrant’s definitive proxy statement relating to its scheduled May 24, 2017 Annual Meeting of Stockholders are incorporated by reference in Part III of this report.

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

OVERVIEW

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.

Integra, headquartered in Plainsboro, New Jersey, is a world leader in medical technology. The Company employs approximately 3,700 people around the world who are dedicated to limiting uncertainty for surgeons, so that they can concentrate on providing the best care for their patients. Integra offers innovative solutions, including leading regenerative technologies, specialty surgical solutions, and orthopedic solutions. Revenues grew to $992.1 million in 2016, an increase of 12% from $882.7 million in 2015.

Integra was founded on an engineered collagen technology platform that is used to repair and regenerate tissue. The Company has developed numerous product lines from this technology for applications ranging from burn and deep tissue wounds to repair of dura mater in the brain to repair of nerve and tendon. Over the past 30 years, Integra has grown by building upon this core regenerative technology, acquiring businesses in markets with overlapping customer bases, and developing products to further meet the needs of target customers.

On October 25, 2016, our Board of Directors recommended, subject to stockholder approval, an amendment to the Company’s Certificate of Incorporation (the “Amendment”) to increase the number of authorized shares of common stock from 60.0 million shares to 240.0 million shares, par value $0.01 per share, for the purpose of, among other things, affecting a two-for-one stock split. The stockholders approved the Amendment on its special Stockholders' Meeting on December 21, 2016. The Company filed a certificate of amendment to our amended and restated certificate of incorporation to effect the increase in authorized shares of common stock and the two-for-one-stock split. Stockholders of record as of the close of market on December 21, 2016 were entitled to receive one additional share of common stock for each share held. The shares were distributed on January 3, 2017. No fractional shares of common stock were issued as a result of the two-for-one stock split. The adjusted stock price was reflected on the NASDAQ stock market on January 4, 2017.

The shares of common stock retained a par value of $0.01 per share. Accordingly, the stockholders' equity reflects the stock split by reclassifying from "Additional paid-in capital" to "Common stock" for an amount equal to the par value of the increased shares resulting from the stock split. All references in this Form 10-K to the number of shares of common stock, price per share and weighted average shares of common stock have been adjusted to reflect the post-split amounts, unless otherwise indicated.

VISION

We aspire to be a multi-billion dollar diversified global medical technology company that helps patients by limiting uncertainty for healthcare professionals. Our customers will recognize us as a leader in specialty surgical applications, regenerative technologies and extremities orthopedics worldwide.

STRATEGY

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

This is an essential strategic approach for two reasons. First, the costs inherent in operating a medical technology company have increased at an accelerating rate in recent years and continue to rise. Scale is therefore correlated with rates of profitability in our industry. Our strategic response is to focus efforts and investments on accelerating growth in the clinical areas where we compete today. Second, we compete in a complex and highly regulated industry, and we have grown through more than 45 acquisitions in our history. We have made significant accomplishments in the past several years to reduce our operational footprint, simplify our organizational structure and build platforms for common systems. To effectively execute on our plans to grow our core business and integrate acquisitions, we must continue to improve our infrastructure and processes. These improvements will fortify a solid platform from which to grow our business.

Our executive leadership team has set forth the following several near-term objectives aligned to this strategy:

Portfolio Optimization. We are investing in innovative product development to drive a multi-generational pipeline for our key product franchises. Our product development efforts focus on regenerative technologies and other projects with the potential for significant returns on investment. We have a goal of generating at least one quarter of our organic growth in any

one year from products launched in the previous two to three years. These recent efforts have contributed to an active schedule of impactful product launches. In addition to new product development, we are funding studies to gather clinical evidence to support launches, ensure market access and improve reimbursement for existing products. We also continue to identify low-growth, low-margin products and product franchises for discontinuation and will continue to look at other ways of optimizing our portfolio.

Commercial Channel Optimization and International Expansion. Through the acquisition of TEI Biosciences, Inc. and TEI Medical Inc. (collectively "TEI") in July 2015 and the 2016 launch of Omnigraft™ for diabetic foot ulcers, we have established a new presence in the outpatient segment of the fast-growing advanced wound care market. We have built up this commercial channel and support infrastructure to facilitate the Omnigraft product launch. Our 3x3 strategy takes advantage of our unique position to call upon providers in three sales channels (inpatient, outpatient, and multi-center enterprise-wide contracting) and offer three product families for advanced wound healing (engineered collagen, acellular collagen and human amniotic wound dressings). We also see an opportunity to accelerate revenue growth by increasing our international presence. In order to achieve this, we are expanding our commercial infrastructure in key markets and securing ownership or other control of our product registrations and distribution system. Additionally, we have a plan for registering and launching our existing products in countries where we already have a selling presence, but are missing key leading brands. We expect this focus on key markets and products that carry both high margins and relevant price points to increase our international business. More broadly, to compete successfully against much larger, diversified medical technology competitors, we are building upon our leadership brands across our product franchises and engaging hospital systems through enterprise-wide contracts.

Strategic Corporate Development. Over the years, we have successfully acquired and in-licensed businesses, products and technologies to grow our business. Our corporate development program is a core competency, and an important part of our strategy is to continue to pursue strategic transactions and licensing agreements to increase relevant scale in the clinical areas in which we compete. Heading into 2017, closing the acquisition of the Codman Neurosurgery business of Johnson & Johnson ("Codman Neurosurgery") and integrating Derma Sciences, Inc. ("Derma Sciences") will be key objectives for the company. Acquisitions, in particular, may expand international distribution, add a technology platform, increase the scale of one of our current portfolios, or provide access into an adjacent growth area that leverages the sales channel. We focus our efforts on the clinical areas of wound care, extremities orthopedics, and specialty surgical applications. Our corporate development capabilities are increasingly important to remain competitive in today's environment.

Finally, we are investing in training programs to strengthen our leadership bench in the organization, and we continue to invest in targeted additions to our sales organization to improve market coverage. These initiatives, investments, and talent development efforts will strengthen the foundation necessary to support a faster growing, multi-billion dollar global medical technology company. Our strategy to execute, optimize and accelerate growth will enable us to continue to be a company that helps limit uncertainty for customers and touches millions of patients each year, while driving returns for shareholders.

BUSINESS SEGMENTS

We currently manufacture and sell our products in the following two global reportable business segments: Specialty Surgical Solutions and Orthopedics and Tissue Technologies. We include financial information regarding our reportable business segments and certain geographic information under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 15, Segment and Geographic Information to our consolidated financial statements.

Specialty Surgical Solutions

Our Specialty Surgical Solutions business offers specialty surgical instrumentation for a broad range of specialties, including a market-leading product portfolio used in the neurosurgery operating suite and critical care unit.

We sell products and solutions for dural repair, precision tools and instruments, tissue ablation, and neuro critical care, including related service and repair. For neurosurgeons, we have products for each step of a procedure and the care of the patient after surgery, from both equipment and implants used in the neurosurgery operating room to monitoring in

the neurosurgery intensive care unit. We are also among the largest surgical instrument suppliers in the United States to hospitals, acute care surgical centers, and clinician offices. Our portfolio includes over 60,000 instrument patterns and surgical products, surgical headlight systems and table-mounted retractors that address a broad set of surgical specialties.

In the United States, Specialty Surgical Solutions products are sold through a combination of directly employed sales representatives, sales agents and distributors, depending on the customer call point. We have a specialized sales organization composed of directly employed sales representatives who primarily call on neurosurgeons and the neuro critical care unit. In addition, we have a sales organization consisting of a combination of directly employed sales representatives and sales agents who primarily call on the central sterile processing unit of hospitals and acute care surgical centers. Finally, we reach the

diverse alternate site call point, which includes physician, dental and veterinary offices, through distributors. Internationally, we sell certain products and product lines from the Specialty Surgical Solutions portfolio through a combination of direct efforts, primarily in certain European countries, Australia, New Zealand, and Canada, and through distributors in other countries.

Orthopedics and Tissue Technologies

Our Orthopedics and Tissue Technologies business offers a unique combination of differentiated soft tissue repair and tissue regeneration products, and small bone fixation and joint replacement solutions.

We sell regenerative technology products that can be used to provide treatment for acute wounds, such as burns, chronic wounds, including diabetic foot ulcers, surgical tissue repair including hernia repair, peripheral nerve repair and protection, and tendon repair. For extremity bone and joint reconstruction procedures, we sell hardware products, such as bone and joint fixation and joint replacement devices, implants and instruments, which provide for the orthopedic reconstruction of bone in the hand, wrist, elbow and shoulder (Upper Extremity), and the foot, ankle and leg below the knee (Lower Extremity).

In the United States, we have a specialized sales organization composed of directly employed sales representatives, as well as specialty distributors, organized based upon their call point. A team of extremities sales representatives calls on surgeons who treat acute wounds in hospitals, extremity orthopedic disorders, including osteoarthritis, rheumatoid arthritis, wrist, ankle and shoulder arthroplasty, and other conditions requiring foot or hand reconstruction. In addition, we sell our shoulder products through a specialty distributor network of sales agents who call on shoulder surgeons. A team of wound care clinic sales representatives calls on physicians who treat chronic wounds in the outpatient wound care clinic setting. A team of surgical sales representatives calls on surgeons who treat patients requiring surgical tissue repair and reconstruction. Finally, we have a small group of clinical sales specialists who focus on our regenerative products and support these three sales organizations - extremities, wound care and surgical - to address their clinicians' needs as they relate to this class of products. Outside the United States, we have a small direct sales presence, primarily in certain European countries, Australia, New Zealand, and Canada, and utilize distributors in other international markets to sell certain products and product lines from the Orthopedics and Tissue Technologies portfolio.

This segment also includes private-label sales of a broad set of our regenerative technologies. Our customers are other medical technology companies that sell to end markets primarily in orthopedics, spine, surgical and wound care.

PRODUCTS - OVERVIEW

We offer thousands of products for the medical specialties we target. Our objective is to develop, acquire or otherwise provide products that will limit uncertainty for hospitals and surgeons. These products include our regenerative technology implants, metal implants, instruments and equipment for small bone orthopedic surgery and specialty surgical applications. We distinguish ourselves by emphasizing the importance of regenerative technology, which we define as surgical implants derived from our proprietary collagen matrix technology and other biologic platforms that enable or facilitate the body's healing process and are resorbed.

RESEARCH AND DEVELOPMENT STRATEGY

Our research and development activities focus on identifying unmet surgical needs and addressing those needs with innovative solutions and products. We apply our core competency in regenerative technology to products for neurosurgical, orthopedic and wound applications, and we have extensive programs for our core platforms of orthopedic hardware and electromechanical technologies. We are focusing our research and development efforts on the development of innovative products and clinical studies to generate efficacy and health economic evidence.

Regenerative Technologies. Because regenerative technology products represent a fast-growing, high-margin opportunity for us, we allocate a large portion of our research and development budget to these projects. Our regenerative technology development program applies our expertise in bioengineering to a range of biomaterials including, natural collagen and human tissues as well as synthetics such as polymers. These unique product designs

are used for neurosurgical and orthopedic surgical applications, as well as dermal regeneration, including the healing of chronic and acute wounds, tendon and nerve repair. After finalizing our multi-center clinical trial evaluating the safety and effectiveness of the INTEGRA® Dermal Regeneration Template for the Treatment of Diabetic Foot Ulcer ("DFU") in 2015, we filed a submission with the United States Food and Drug Administration ("FDA") and received Premarket Approval ("PMA") approval on January 7, 2016. The Company started commercializing the resulting DFU product, Omnigraft, in 2016. Additionally, we finalized patient follow-up in a Post Approval Study for our DuraSeal® Exact Spine Sealant System, and submitted the study results to the FDA in October 2016. The study demonstrated the continued safety and effectiveness of this product, and we expect that this study will satisfy the post-approval

commitment related to it. We are investing in the development of next generation products, including nerve products, anti-microbial adjuncts for primary wound management, and specific chronic wound care solutions for the inpatient and outpatient settings, additional clinical studies for indications to support existing products, including ongoing studies of the use of our products in chronic wound, abdominal wall, and complex wounds and for an approval for a breast reconstruction indication as well as longer-term research programs to evaluate combination products.

Orthopedic Reconstruction. We develop fixation and small joint reconstruction implants and instruments for upper and lower extremities to both provide next generation solutions and expand our product portfolio. This portfolio focuses on joint replacement products. Integra already has a strong shoulder portfolio, which includes a total shoulder system and a reverse shoulder. We continue to work on advanced shoulder products and are developing a pyrocarbon hemi-shoulder product to add to that portfolio. We have a strong differentiated asset that resides in our exclusively licensed pyrocarbon products, and we continue to invest to bring new products to market with this technology, which has shown significantly less wear on bone than traditional metals. Our Cadence® total ankle replacement product launched in 2016 and complements the acquired Salto Talaris® ankle. The two ankles address different market needs with the Cadence ankle designed to simplify the ankle replacement procedure and maximize reproducibility through its instrumentation and technique.

Electromechanical Technologies and Instrumentation. Because our electromechanical products and instruments represent products that limit uncertainty for surgeries, we continue to invest in approvals for new indications and next generation improvements to our market-leading products. We have several active program focused on life cycle management and innovation on both capital and disposable products in our portfolio. We also work with a number of primarily German instrument partners to bring new surgical instrument patterns to the market, enabling us to add new instruments with minimal expense. Finally, our lighting franchise is among the most dynamic in the industry, and we continue to invest in ongoing development in LED technology.

COMPETITION

Our primary competitors in specialty surgical solutions are the Aesculap division of B. Braun Medical, Inc., Johnson & Johnson, Medtronic, Inc., Stryker Corporation, Becton, Dickinson and Company, and C.R. Bard, Inc. In addition, we compete with many smaller specialized companies and larger companies that do not otherwise focus on specialty surgical solutions. We rely on the depth and breadth of our sales and marketing organization, our innovative technology, and our procurement operation to maintain our competitive position in much of our precision tools and instruments portfolio.

Our competition in orthopedics and tissue technologies includes the DePuy/Synthes business of Johnson & Johnson, Stryker Corporation, Wright Medical Group, N.V., Smith & Nephew plc, MiMedx Group, Inc., Acelity L.P. Inc., a subsidiary of Allergan PLC, and Zimmer Biomet Holdings, Inc., as well as other major orthopedic companies that carry a full line of small bone and joint fixation and soft tissue products.

Finally, in certain cases our products compete primarily against medical practices that treat a condition without using a medical device or any particular product, such as medical practices that utilize autograft tissue instead of our dermal regeneration products, duraplasty products and nerve repair products. Depending on the product line, we compete on the basis of our products' features, strength of our sales force or distributors, sophistication of our technology and cost effectiveness of our solution.

GOVERNMENT REGULATION

We are a manufacturer and marketer of medical devices, and therefore are subject to extensive regulation by the FDA, the Center for Medicare Services of the U.S. Department of Health and Human Services, other federal governmental agencies and, in some jurisdictions, by state and foreign governmental authorities. These regulations govern the introduction of new medical devices, the observance of certain standards with respect to the design, manufacture, testing, labeling, promotion and sales of the devices, the maintenance of certain records, the ability to track devices, the reporting of potential product defects, the import and export of devices, and other matters.

United States Food and Drug Administration

We have an outstanding FDA warning letter related to TEI Biosciences Inc., an acquisition by Integra on July 17, 2015. TEI Biosciences Inc. received a Warning Letter from the FDA dated May 29, 2015 for promoting the product

SurgiMend for breast surgery applications that were not cleared in the 510(k) process and do not have a PMA Approval for the indication. The FDA requested that TEI Biosciences Inc. immediately cease all activities that resulted in misbranding or adulteration of the product in commercial distribution. The FDA also required TEI Biosciences Inc. to cease all violations regarding promotion of the product for an indication that it was not cleared or approved. TEI Biosciences Inc. responded with a corrective action plan to the FDA and took action to address the issues prior to the completion of the acquisition. We will continue to monitor this activity and address all corrective actions submitted to the FDA. The FDA may not accept our corrective action plan or it may choose to scrutinize

other promotional claims on products and require additional corrective actions. We do not expect to incur material operating expenses to complete the corrective action plan.

The regulatory process of obtaining product approvals and clearances can be onerous and costly. The FDA requires, as a condition to marketing a medical device in the United States, that we secure a Premarket Notification clearance pursuant to Section 510(k) of the Federal Food, Drug and Cosmetic Act (the "FD&C Act") or an approved PMA application (or supplemental PMA application). Obtaining these approvals and clearances can take up to several years and may involve preclinical studies and clinical trials. The FDA also may require a post-approval clinical study as a condition of approval. To perform clinical trials for significant risk devices in the United States on an unapproved product, we are required to obtain an Investigational Device Exemption ("IDE") from the FDA. The FDA may also require a filing for approval prior to marketing products that are modifications of existing products or new indications for existing products. Moreover, after clearance/approval is given, if the product is shown to be hazardous or defective, the FDA and foreign regulatory agencies have the power to withdraw the clearance or approval, as the case may be, or require us to change the device, its manufacturing process or its labeling, to supply additional proof of its safety and effectiveness or to recall, repair, replace or refund the cost of the medical device. Because we currently export medical devices manufactured in the United States that have not been approved by the FDA for distribution in the United States, we are required to obtain approval/registration in the country to which we are exporting and maintain certain records relating to exports and make these available to the FDA for inspection, if required.

Human Cells, Tissues and Cellular and Tissue-Based Products

Integra distributes medical devices derived from human tissue (demineralized bone tissue). The FDA has specific regulations governing human cells, tissues and cellular and tissue-based products, or HCT/Ps. An HCT/P is a product containing, or consisting of, human cells or tissue intended for transplantation into a human patient. Examples include bone, ligament, skin and cornea.

Some HCT/Ps fall within the definition of a biological product, medical device or drug regulated under the FD&C Act. These biologic, device or drug HCT/Ps must comply both with the requirements exclusively applicable to HCT/Ps and, in addition, with requirements applicable to biologics, devices or drugs, including premarket clearance or approval from the FDA.

Section 361 of the Public Health Service Act ("PHSA"), authorizes the FDA to issue regulations to prevent the introduction, transmission or spread of communicable disease. HCT/Ps regulated as "361" HCT/Ps are subject to requirements relating to registering facilities and listing products with the FDA, screening and testing for tissue donor eligibility, Good Tissue Practice when processing, storing, labeling, and distributing HCT/Ps, including required labeling information, stringent record keeping, and adverse event reporting.

The American Association of Tissue Banks ("AATB") has issued operating standards for tissue banking. Compliance with these standards is a requirement in order to become an AATB-accredited tissue establishment. In addition, some states have their own tissue banking regulations. We are licensed or have permits for tissue banking in California, Florida, New York and Maryland.

National Organ Transplant Act. Procurement of certain human organs and tissue for transplantation is subject to the restrictions of the National Organ Transplant Act ("NOTA"), which prohibits the transfer of certain human organs, including skin and related tissue for valuable consideration, but permits the reasonable payment associated with the removal, transportation, implantation, processing, preservation, quality control and storage of human tissue and skin. We reimburse tissue banks for their expenses associated with the recovery, storage and transportation of donated human tissue that they provide to us for processing. We include in our pricing structure amounts paid to tissue banks to reimburse them for their expenses associated with the recovery and transportation of the tissue, in addition to certain costs associated with processing, preservation, quality control and storage of the tissue, marketing and medical education expenses, and costs associated with development of tissue processing technologies. NOTA payment allowances may be interpreted to limit the amount of costs and expenses that we may recover in our pricing for our products, thereby reducing our future revenue and profitability.

Medical Device Regulations

We also are required to register with the FDA as a medical device manufacturer. As such, our manufacturing sites are subject to periodic inspection by the FDA for compliance with the FDA's Quality System Regulations. These regulations require that we manufacture our products and maintain our documents in a prescribed manner with respect to design, manufacturing, testing and control activities. Further, we are required to comply with various FDA requirements and other legal requirements for labeling and promotion. If the FDA believes that a company is not in compliance with applicable regulations, it may issue a warning letter, institute proceedings to detain or seize products, issue a recall order, impose operating restrictions, enjoin future violations and assess civil penalties against that company, its officers or its employees and may recommend criminal prosecution to the U.S. Department of Justice. Medical device regulations also are in effect in many of the countries in which we do business outside the United States. These laws range from comprehensive medical device approval and Quality System requirements for some or all of our medical device

products to simpler requests for product data or certifications. The number and scope of these requirements are increasing. Under the European Union Medical Device Directive, medical devices must meet the Medical Device Directive standards and receive CE Mark Certification prior to marketing in the European Union (the "EU"). CE Mark Certification requires a comprehensive quality system program, technical documentation and data on the product, which are then reviewed by a Notified Body. A Notified Body is an organization designated by the national governments of the European Union member states to make independent judgments about whether a product complies with the requirements established by each CE marking directive. The Medical Device Directive, ISO 9000 series and ISO 13485 are recognized international quality standards that are designed to ensure that we develop and manufacture quality medical devices. Other countries are also instituting regulations regarding medical devices or interpreting and enforcing existing regulations more strictly. Compliance with these regulations requires extensive documentation and clinical reports for all of our products, revisions to labeling, and other requirements such as facility inspections to comply with the registration requirements. A recognized Notified Body audits our facilities annually to verify our compliance with the ISO 13485 Quality System standard.

Certain countries, as well as the EU, have issued regulations that govern products that contain materials derived from animal sources. Regulatory authorities are particularly concerned with materials infected with the agent that causes bovine spongiform encephalopathy ("BSE"), otherwise known as mad cow disease. These regulations affect our dermal regeneration products, duraplasty products, hernia repair products, biomaterial products for the spine, nerve and tendon repair products and certain other products, all of which contain material derived from bovine tissue. Although we take great care to provide that our products are safe and free of agents that can cause disease, products that contain materials derived from animals, including our products, may become subject to additional regulation, or even be banned in certain countries, because of concern over the potential for prion transmission. Significant new regulations, a ban of our products, or a movement away from bovine-derived products because of an outbreak of BSE could have a material adverse effect on our current business or our ability to expand our business. See "Item 1A. Risk Factors - Certain of our products contain materials derived from animal sources and may become subject to additional regulation."

Postmarket Requirements. After a device is cleared or approved for commercial distribution, numerous regulatory requirements apply. These include the FDA Quality System Regulations which cover the procedures and documentation of the design, testing, production, control, quality assurance, labeling, packaging, sterilization, storage and shipping of medical devices; the FDA's general prohibition against promoting products for unapproved or 'off-label' uses; the Medical Device Reporting regulation, which requires that manufacturers report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if it were to recur; and the Reports of Corrections and Removals regulation, which require manufacturers to report recalls and field corrective actions to the FDA if initiated to reduce a risk to health posed by the device or to remedy a violation of the FD&C Act.

Other regulations

Anti-Bribery Laws. In the United States, we are subject to laws and regulations pertaining to healthcare fraud and abuse, including anti-kickback laws and physician self-referral laws that regulate the means by which companies in the health care industry may market their products to hospitals and health care professionals and may compete by discounting the prices of their products. Similar anti-bribery laws exist in many of the countries in which we sell our products outside of the United States, as well as the United States Foreign Corrupt Practices Act (which addresses the activities of U.S. companies in foreign markets). Our products also are subject to regulation regarding reimbursement, and U.S. healthcare laws apply when a customer submits a claim for a product that is reimbursed under a federally funded healthcare program. These global laws require that we exercise care in designing our sales and marketing practices, including involving interactions with healthcare professionals, and customer discount arrangements. See "Item 1A. Risk Factors - Oversight of the medical device industry might affect the manner in which we may sell medical devices and compete in the marketplace."

Import-export. Our international operations subject us to laws regarding sanctioned countries, entities and persons, customs, and import-export. Among other things, these laws restrict, and in some cases can prevent, United States companies from directly or indirectly selling goods, technology or services to people or entities in certain countries. In

addition, these laws require that we exercise care in our business dealings with entities in and from foreign countries.
Hazardous materials. Our research, development and manufacturing processes involve the controlled use of certain hazardous materials. We are subject to country-specific, federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of these materials and certain waste products. We believe that our environmental, health and safety procedures for handling and disposing of these materials comply with the standards prescribed by the controlling laws and regulations. However, risk of accidental releases or injury from these materials is possible. These risks are managed to minimize or eliminate associated business impacts. In the event of this type of accident, we could be held liable for damages that may result, and any liability could exceed our resources. We could be subject to a regulatory shutdown of a facility that could prevent the distribution and sale of products manufactured there for a significant period of time, and we could suffer a casualty loss that could require a

shutdown of the facility in order to repair it, any of which could have a material, adverse effect on our business. Although we continuously strive to maintain full compliance with respect to all applicable global environmental, health and safety laws and regulations, we could incur substantial costs to fully comply with future laws and regulations, and our operations, business or assets may be negatively affected. Furthermore, global environmental, health and safety compliance is an ongoing process. Integra has compliance procedures in place for compliance with Employee Health & Safety laws, driven by a centrally led organizational structure that ensures proper implementation, which is essential to our overall business objectives.

In addition to the above regulations, we are, and may be, subject to regulation under country-specific federal and state laws, including, but not limited to, requirements regarding record keeping, and the maintenance of personal information, including personal health information. As a public company, we are subject to the securities laws and regulations, including the Sarbanes-Oxley Act of 2002. We also are subject to other present, and could be subject to possible future, local, state, federal and foreign regulations.

Third-Party Reimbursement. Healthcare providers that purchase medical devices generally rely on third-party payors, including, in the United States, the Medicare and Medicaid programs and private payors, such as indemnity insurers, employer group health insurance programs and managed care plans, to reimburse all or part of the cost of the products. As a result, demand for our products is and will continue to be dependent in part on the coverage and reimbursement policies of these payors. The manner in which reimbursement is sought and obtained varies based upon the type of payor involved and the setting in which the product is furnished and utilized. Reimbursement from Medicare, Medicaid and other third-party payors may be subject to periodic adjustments as a result of legislative, regulatory and policy changes, as well as budgetary pressures. Possible reductions in, or eliminations of, coverage or reimbursement by third-party payors, or denial of, or provision of uneconomical reimbursement for new products may affect our customers' revenue and ability to purchase our products. Any changes in the healthcare regulatory, payment or enforcement landscape relative to our customers' healthcare services has the potential to significantly affect our operations and revenue.

INTELLECTUAL PROPERTY

We seek patent and trademark protection for our key technology, products and product improvements, both in the United States and in selected foreign countries. When determined appropriate, we have enforced and plan to continue to enforce and defend our patent and trademark rights. In general, however, we do not rely solely on our patent and trademark estate to provide us with any significant competitive advantages as it relates to our existing product lines. We also rely upon trade secrets and continuing technological innovations to develop and maintain our competitive position. In an effort to protect our trade secrets, we have a policy of requiring our employees, consultants and advisors to execute proprietary information and invention assignment agreements upon commencement of employment or consulting relationships with us. These agreements also provide that all confidential information developed or made known to the individual during the course of their relationship with us must be kept confidential, except in specified circumstances.

AccuDrain®, Advansys®, Ascension®, BioFix®, BioMotion®, Bold®, Budde®, Buzz™, Camino®, Capture™, CRW®, CUSA®, DigiFuse®, DuraGen®, DuraSeal®, First Choice®, Futura™, Hallu®, HeliCote®, HeliPlug®, HeliTape®, HeliMend®, Helistat®, Helitene®, Integra®, IPP-ON®, Jarit®, Licox®, LimiTorr™, Luxtec®, MemoFix®, MicroFrance®, Miltex®, Movement®, NeuraGen®, NeuraWrap™, NuGrip®, Omni-Tract®, OSV II®, Qwix®, Padgett®, Panta®, PriMatrix®, PyroSphere®, Redmond™, Ruggles®, SafeGuard®, Salto Talaris®, Subtalar MBA®, SurgiMend®, TenoGlide®, Ti6®, Tibiaxys®, TissueMend®, Titan™ , Trel-X™, Trel-XC®, Trel-XPress™, TruArch®, Uni-CP®, Uni-Clip®, and the Integra logo are some of the material trademarks of Integra LifeSciences Corporation and its subsidiaries. MAYFIELD® is a registered trademark of SM USA, Inc., and is used by Integra under license.

EMPLOYEES

At December 31, 2016, we had approximately 3,700 employees engaged in production and production support for warehouse, engineering and facilities, quality assurance, quality control, research and development, regulatory and clinical affairs, sales, marketing, administration and finance. Except for certain employees at our facilities in France and Mexico, none of our employees are subject to a collective bargaining agreement.

FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

Financial information about our geographical areas is set forth under “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Geographic Product Revenues and Operations” and in our financial statements Note 15, Segment and Geographic Information, to our consolidated financial statements.

SOURCES OF RAW MATERIALS

In general, raw materials essential to our businesses are readily available from multiple sources. For reasons of quality assurance, availability, or cost effectiveness, certain components and raw materials are available only from a sole supplier. Our policy is to maintain sufficient inventory of components so that our production will not be significantly disrupted even if a particular component or material is not available for a period of time.

Certain of our products, including our dermal regeneration products, duraplasty products, wound care products, bone void fillers, nerve and tendon repair products and certain other products, contain material derived from bovine tissue. We take great care to provide that our products are safe and free of agents that can cause disease. In particular, the collagen used in the products that Integra manufactures is derived either from the deep flexor tendon of cattle less than 24 months old from New Zealand, a country that has never had a reported case of bovine spongiform encephalopathy, or from the United States or from fetal dermis. The World Health Organization classifies different types of cattle tissue for relative risk of BSE transmission. Deep flexor tendon and fetal bovine skin are in the lowest-risk category for BSE transmission, and is therefore considered to have a negligible risk of containing the agent that causes BSE.

SEASONALITY

Revenues during our fourth quarter tend to be stronger than other quarters because many hospitals increase their purchases of our products during the fourth quarter to coincide with the end of their budget cycles in the U.S. In general, our first quarter usually has lower revenues than the preceding fourth quarter, the second and third quarters have higher revenues than the first quarter, and the fourth quarter revenues are the highest in the year. The main exceptions to this pattern occur because of material intervening acquisitions.

AVAILABLE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”). In accordance with the Exchange Act, we file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may view our financial information, including the information contained in this report, and other reports we file with the Securities and Exchange Commission, on the Internet, without charge as soon as reasonably practicable after we file them with the Securities and Exchange Commission, in the “SEC Filings” page of the Investor Relations section of our website at www.integralife.com. You may also obtain a copy of any of these reports, without charge, from our investor relations department, 311 Enterprise Drive, Plainsboro, NJ 08536. Alternatively, you may view or obtain reports filed with the Securities and Exchange Commission at the SEC Public Reference Room at 100 F Street, N.E. in Washington, D.C. 20549, or at the Securities and Exchange Commission's Internet site at www.sec.gov. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the operation of the public reference facilities.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made statements in this report, including statements under “Business” and “Management's Discussion and Analysis of Financial Condition and Results of Operations” that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Exchange Act. These forward-looking statements are subject to a number of risks, uncertainties and assumptions about us including, among other things:

- general economic and business conditions, both nationally and in our international markets;
- our expectations and estimates concerning future financial performance, financing plans and the impact of competition;
- anticipated trends in our business;
- anticipated demand for our products, particularly capital equipment;
- our ability to produce collagen-based products in sufficient quantities to meet sales demands;
- our expectations concerning our ongoing restructuring, integration and manufacturing transfer and expansion activities;
- existing and future regulations affecting our business, and enforcement of those regulations;
- our ability to obtain additional debt and equity financing to fund capital expenditures and working capital requirements and acquisitions;
- physicians' willingness to adopt our recently launched and planned products, third-party payors' willingness to provide or continue reimbursement for any of our products and our ability to secure regulatory approval for products in development;
- initiatives launched by our competitors;
- our ability to protect our intellectual property, including trade secrets;
- our ability to complete acquisitions, integrate operations post-acquisition and maintain relationships with customers of acquired entities;
- our ability to remediate all matters identified in FDA observations and warning letters that we received or may receive; and
- other risk factors described in the section entitled "Risk Factors" in this report.

You can identify these forward-looking statements by forward-looking words such as “believe,” “may,” “could,” “might,” “wil “estimate,” “continue,” “anticipate,” “intend,” “seek,” “plan,” “expect,” “should,” “would” and similar expressions in this repo undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this report may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements.

ITEM 1A. RISK FACTORS

Risks Related to Our Business

Our operating results may fluctuate.

Our operating results, including components of operating results such as gross margin and cost of product sales, may fluctuate from time to time, and such fluctuations could affect our stock price. Our operating results have fluctuated in the past and can be expected to fluctuate from time to time in the future. Some of the factors that may cause these fluctuations include:

- economic conditions worldwide, which could affect the ability of hospitals and other customers to purchase our products and could result in a reduction in elective and non-reimbursed operative procedures;
- the impact of acquisitions and our ability to integrate acquisitions;

- the impact of our restructuring activities;
- the timing of significant customer orders, which tend to increase in the fourth quarter to coincide with the end of budget cycles for many hospitals;
- market acceptance of our existing products, as well as products in development;
- the timing of regulatory approvals as well as changes in country-specific regulatory requirements;
- changes in the rates of exchange between the U.S. dollar and other currencies of foreign countries in which we do business, such as the euro, British pound, Swiss franc, Canadian dollar, Japanese yen, Australian dollar, Mexican peso, Brazilian real and Chinese yuan;
- expenses incurred and business lost in connection with product field correction actions or recalls;

- potential backorders and lost sales resulting from stoppages in production relating to product recalls or field corrective actions;
- changes in the cost or decreases in the supply of raw materials, including energy and steel;
- our ability to manufacture and ship our products efficiently or in sufficient quantities to meet sales demands;
- the timing of our research and development expenditures;
- expenditures for major initiatives;
- reimbursement for our products by third-party payors such as Medicare, Medicaid, private and public health insurers and foreign governmental health systems;
- the ability to maintain existing distribution rights to and from certain third parties;
- the ability to maintain business if or when we opt to convert such business from distributors to a direct sales model;
- the ability of our new commercial sales representatives to obtain sales targets in a reasonable time frame;
- peer-reviewed publications discussing the clinical effectiveness of the products we sell;
- inspections of our manufacturing facilities for compliance with Quality System Regulations (Good Manufacturing Practices) which could result in Form 483 observations, warning letters, injunctions or other adverse findings from the FDA or from equivalent regulatory bodies, and corrective actions, procedural changes and other actions that we determine are necessary or appropriate to address the results of those inspections, any of which may affect production and our ability to supply our customers with our products;
- changes in regulations or guidelines that impact the marketing practices for products that we sell;
- the increased regulatory scrutiny of certain of our products, including products which we manufacture for others, could result in their being removed from the market or involve field corrective actions that could affect the marketability of our products;
- changes in tax laws, or their interpretations; and
- the impact of goodwill and intangible asset impairment charges if future operating results of the acquired businesses are significantly less than the results anticipated at the time of the acquisitions.

The industry and market segments in which we operate are highly competitive, and we may be unable to compete effectively with other companies.

In general, there is intense competition among medical device companies. We compete with established medical technology companies in many of our product areas. Competition also comes from early-stage companies that have alternative technological solutions for our primary clinical targets, as well as universities, research institutions and other non-profit entities. Many of our competitors have access to greater financial, technical, research and development, marketing, manufacturing, sales, distribution, administrative, consulting and other resources than we do. Our competitors may be more effective at developing commercial products. Our competitors may be able to gain market share by offering lower-cost products or by offering products that enjoy better reimbursement methodologies from third-party payors, such as Medicare, Medicaid, private and public health insurers and foreign governmental health systems.

Our competitive position will depend on our ability to achieve market acceptance for our products, develop new products, implement production and marketing plans, secure regulatory approval for products under development, obtain and maintain reimbursement coverage under Medicare, Medicaid and private healthcare insurance, obtain patent protection and to produce products consistently in sufficient quantities to meet demand. We may need to develop new applications for our products to remain competitive. Technological advances by one or more of our current or future competitors or their achievement of superior reimbursement from Medicare, Medicaid and private healthcare insurance could render our present or future products obsolete or uneconomical. Our future success will depend upon our ability to compete effectively against current technology as well as to respond effectively to technological advances. Competitive pressures could adversely affect our profitability. Additionally, purchasing decisions of our customers may be based on clinical evidence or comparative effectiveness studies and, because of our vast array of products, we might not be able to fund the studies necessary or provide the required information to compete effectively. Other companies may have more resources available to fund such studies. For example, competitors have launched and have been developing products to compete with our duraplasty products, dural sealant, extremity reconstruction implants, regenerative skin, neuro critical care monitors and ultrasonic tissue ablation

devices, among others.

Our primary competitors in specialty surgical solutions are the Aesculap division of B. Braun Medical, Inc., Johnson & Johnson, Medtronic, Inc., Stryker Corporation, Becton, Dickinson and Company, and C.R. Bard, Inc. Our competitors in orthopedics and tissue technologies include the DePuy/Synthes business of Johnson & Johnson, Stryker Corporation, Wright Medical Group, N.V., Smith & Nephew plc, MiMedx Group, Inc., Acelity L.P. Inc., a subsidiary of Allergan PLC, and Zimmer Biomet Holdings, Inc., as well as other major orthopedic companies that carry a full line of small bone and joint fixation, soft tissue and/or wound care products. Additionally, we compete with many smaller specialized companies and larger companies that do not otherwise focus on specialty surgical solutions or orthopedics and tissue technology. Finally, in certain cases our products compete primarily against medical practices that treat a condition without using a device or any particular product, such as the medical practices that use autograft tissue instead of our dermal regeneration products, duraplasty products and nerve repair products.

We may not achieve some or all of the anticipated benefits of the separation of our Spine business.

On July 1, 2015, we completed the separation (the "Separation") of our orthobiologics and spinal fusion hardware business, now known as SeaSpine Holdings Corporation ("SeaSpine"), from the Company. Even though the Separation has been completed, we may not realize any or all of the anticipated strategic, financial, operational, marketing or other benefits from the Separation, including our ability to benefit from the increased focus through our two divisional structure or to achieve anticipated growth rates, margins and scale and to execute on our strategy generally. Following the Separation, we are a smaller, less diversified company. This narrower business focus could leave us more vulnerable to changing market conditions, which could adversely affect our business, financial condition and results of operations. The diminished diversification of revenue, costs, and cash flows could also cause our results of operations, cash flows, working capital and financing requirements to be subject to increased volatility. In addition, we may be unable to achieve some or all of the strategic and financial benefits that we expected would result from the Separation, or such benefits may be delayed, which could adversely affect our 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 Separation not occurred.

Following the Separation, SeaSpine will continue to be dependent on us for certain support services and we may have indemnification obligations to each other with respect to such arrangements.

We entered into various agreements with SeaSpine in connection with the Separation, including a transition services agreement, a separation and distribution agreement, a tax matters agreement, an employee matters agreement and several supply agreements. These agreements will govern our relationship with SeaSpine following the Separation. If we are required to indemnify SeaSpine for certain liabilities and related losses arising in connection with any of these agreements or if SeaSpine is required to indemnify us for certain liabilities and related losses arising in connection with any of these agreements and does not fulfill its obligations to us, we may be subject to substantial liabilities, which could have a material adverse effect on our financial position.

If there is a determination that the spin-off is taxable for U.S. federal income tax purposes, then we and our stockholders that are subject to U.S. federal income tax could incur significant U.S. federal income tax liabilities and, in certain circumstances, we could be required to indemnify SeaSpine for material taxes pursuant to indemnification obligations under the tax matters agreement.

We received an opinion of Latham & Watkins LLP, tax counsel to us (the "Tax Opinion"), substantially to the effect that (i) the contribution of the stock of SeaSpine Orthopedics Corporation to SeaSpine, together with the internal distribution of the stock of SeaSpine to Integra (collectively, the "internal distribution"), will constitute a reorganization under Sections 355 and 368(a)(1)(D) of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) the contribution of cash from us to SeaSpine (the "cash contribution"), together with the distribution of the stock of SeaSpine to our shareholders (the "distribution"), will constitute a reorganization under Sections 355 and 368(a)(1)(D) of the Code. Based on this tax treatment, the distribution will be tax-free to Integra and its stockholders for U.S. federal income tax purposes (except for any cash received in lieu of fractional shares). The Tax Opinion relied on certain facts, assumptions, representations and undertakings from us and SeaSpine regarding the past and future conduct of the companies' respective businesses and other matters. The Tax Opinion is not binding on the U.S. Internal Revenue Service (the "IRS") or the courts. Notwithstanding the opinion, the IRS could determine on audit that the internal distribution, the cash contribution and the distribution should be treated as taxable transactions if it determines that any of the facts, assumptions, representations or undertakings we or SeaSpine have made is not correct or has been violated, or that the internal distribution, the cash contribution and the distribution should be taxable for other reasons, including as a result of a significant change in stock or asset ownership after the distribution. If the distribution ultimately is determined to be taxable, the distribution could be treated as a taxable dividend or capital gain to our stockholders for U.S. federal income tax purposes, and our stockholders could incur significant U.S. federal income tax liabilities. In addition, we would recognize gain in an amount equal to the excess of the fair market value of shares of SeaSpine common stock distributed to our stockholders on the distribution date over our tax basis in such shares of SeaSpine common stock. Moreover, we could incur significant U.S. federal income tax liabilities if it is ultimately determined that the internal distribution does not qualify as a transaction that is tax-free for U.S. federal income tax purposes.

We might not be able to engage in desirable strategic transactions and equity issuances following the spin-off because of certain restrictions relating to requirements for tax-free distributions.

Our ability to engage in significant equity transactions could be limited or restricted after the spin-off in order to preserve, for U.S. federal income tax purposes, the tax-free nature of the internal distribution and the distribution. Even if the internal distribution and the distribution otherwise qualify for tax-free treatment under Section 355 of the Code, they may result in corporate-level taxable gain to us under Section 355(e) of the Code if there is a 50% or greater change in ownership, by vote or value, of shares of our stock or SeaSpine's stock occurring as part of a plan or series of related transactions that includes the internal distribution or the distribution. Any acquisitions or issuances of our stock or SeaSpine's stock within two years after the distribution are generally presumed to be part of such a plan, although we or SeaSpine may be able to rebut that presumption.

We may be subject to continuing contingent liabilities of SeaSpine following the spin-off.

After the Separation, there are several significant areas where the liabilities of SeaSpine may become our obligations. For example, under the Code and the related rules and regulations, each corporation that was a member of our consolidated U.S. federal income tax reporting group during any taxable period or portion of any taxable period ending on or before the effective time of the spin-off is jointly and severally liable for the U.S. federal income tax liability of the entire consolidated tax reporting group for that taxable period. If SeaSpine is unable to pay any prior period taxes for which it is responsible, we could be required to pay the entire amount of such taxes.

Our current strategy involves growth through acquisitions, which requires us to incur substantial costs and potential liabilities for which we may never realize the anticipated benefits.

In addition to internally generated growth, our current strategy involves growth through acquisitions. Between January 1, 2014 and December 31, 2016, we have acquired 7 businesses at a total cost of approximately $677.9 million.

We may be unable to continue to implement our growth strategy, and our strategy ultimately may be unsuccessful. A significant portion of our growth in revenues has resulted from, and is expected to continue to result from, the acquisition of businesses or products complementary to our own. We engage in evaluations of potential acquisitions and are in various stages of discussion regarding possible acquisitions, certain of which, if consummated, could be significant to us. Any new acquisition could result in material transaction expenses, increased interest and amortization expense, increased depreciation expense, increased operating expense, and possible in-process research and development charges for acquisitions that do not meet the definition of a “business,” any of which could have a material adverse effect on our operating results. Certain businesses that we acquire may not have adequate financial, disclosure, regulatory, quality or other compliance controls at the time we acquire them. As we grow by acquisition, we must manage and integrate the new businesses to bring them into our systems for financial, disclosure, compliance, regulatory and quality control, realize economies of scale, and control costs. In addition, acquisitions involve other risks, including diversion of management resources otherwise available for development of our business and risks associated with entering markets in which our marketing teams and sales force has limited experience or where experienced distribution alliances are not available. Our future profitability will depend in part upon our ability to develop further our resources to adapt to these new products or business areas and to identify and enter into or maintain satisfactory distribution networks. We may not be able to identify suitable acquisition candidates in the future, obtain acceptable financing or consummate any future acquisitions. If we cannot integrate acquired businesses and operations, manage the cost of providing our products or price our products appropriately, our profitability could suffer. In addition, as a result of our acquisitions of other healthcare businesses, we may be subject to the risk of unanticipated business uncertainties, regulatory and other compliance matters or legal liabilities relating to those acquired businesses for which the sellers of the acquired businesses may not indemnify us, for which we may not be able to obtain insurance (or adequate insurance), or for which the indemnification may not be sufficient to cover the ultimate liabilities.

Our future financial results could be adversely affected by impairments or other charges.

Since we have grown through acquisitions, we have $510.6 million of goodwill and $1.0 million of indefinite-lived intangible assets as of December 31, 2016. Under the authoritative guidance for determining the useful life of intangible assets, we are required to test both goodwill and indefinite-lived intangible assets for impairment on an annual basis based upon a fair value approach, rather than amortizing them over time. We are also required to test goodwill and indefinite-lived intangible assets for impairment between annual tests if an event occurs such as a significant decline in revenues or cash flows for certain products, or the discount rates used in the calculations of discounted cash flow change significantly, or circumstances change that would more likely than not reduce our enterprise fair value below its book value. If such a decline, rate change or circumstance were to materialize, we may record an impairment of these intangible assets that could be material to the financial statements. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates” of this report.

The guidance on long-lived assets requires that we assess the impairment of our long-lived assets, including finite-lived intangible assets, whenever events or changes in circumstances indicate that the carrying value may not be recoverable as measured by the sum of the expected future undiscounted cash flows. As of December 31, 2016, we had $560.2 million of finite-lived intangible assets.

At December 31, 2016 our trade names have a carrying value of $71.3 million and decisions relating to our trade names may occur over time. Additionally, we may discontinue certain products in the future as we continue to assess the profitability of our product lines. As a result, we may need to record impairment charges or accelerate amortization on certain trade names or technology-related intangible assets in the future.

The value of a medical device business is often volatile, and the assumptions underlying our estimates made in connection with our assessments under the guidance may change as a result of that volatility or other factors outside our control and may

result in impairment charges. The amount of any such impairment charges could be significant and could have a material adverse effect on our reported financial results for the period in which the charge is taken and could have an adverse effect on the market price of our securities, including the notes and the common stock into which they may be converted.

The adoption of healthcare reform in the United States and initiatives sponsored by other governments may adversely affect our business, results of operations and/or financial condition.

Our operations may be substantially affected by potential fundamental changes in the global political, economic and regulatory landscape of the healthcare industry. Government and private sector initiatives to limit the growth of healthcare costs are continuing in the U.S., and in many other countries where we do business, causing the marketplace to put increased emphasis on the delivery of more cost-effective treatments. These initiatives include price regulation, competitive pricing, coverage and payment policies, comparative effectiveness of therapies, technology assessments and managed-care arrangements.

In March 2010, significant reforms to the U.S. healthcare system were adopted in the form of the Patient Protection and Affordable Care Act (the "Affordable Care Act"). The Affordable Care Act includes provisions that, among other things, reduce and/or limit Medicare reimbursement, require all individuals to have health insurance (with limited exceptions) and impose new and/or increased taxes. Specifically, the law requires the medical device industry to subsidize healthcare reform by implementing a 2.3% excise tax, commencing on January 1, 2013, on the sale of certain medical devices by a manufacturer, producer or importer of such devices in the United States. Because the substantial majority of our revenues is generated in the United States, the Affordable Care Act affected our financial results since it came into effect after December 31, 2012. In December 2015, President Obama signed into law The Consolidated Appropriations Act, which included a two-year moratorium on the 2.3% medical device excise tax, with the effect such that medical device revenues earned in 2016 and 2017 will be exempt from such tax. Unless there is further legislative action during that two-year period, the 2.3% medical device excise tax automatically will be reinstated for sales of medical devices on or after January 1, 2018. While this two-year moratorium on the 2.3% medical device excise tax could provide a short-term benefit to the Company in terms of providing additional monies available to spend on various projects in 2016 and 2017, we are unable to predict what the long-term impact will have on our financial statements and financial performance.

In addition, the Affordable Care Act also requires detailed disclosure of gifts and other remuneration made to healthcare professionals, which could have a negative impact on our relationships with customers and ability to seek input on product design or involvement in research.

Other provisions of the Affordable Care Act could meaningfully change the way healthcare is developed and delivered in the United States, and may adversely affect our business and results of operations.

There are many programs and requirements for which the details have not yet been fully established or consequences not fully understood, and it is unclear what the full impact of the legislation will be. We cannot predict what healthcare programs and regulations will ultimately be implemented at the U.S. federal or state level, or the effect of any future legislation or regulation in the United States or elsewhere. That said, any changes that lower reimbursements for our products or reduce medical procedure volumes could have a material adverse effect on our business, financial condition and results of operations. We continue to monitor the implementation of such legislation and, to the extent new market or industry trends or new governmental programs evolve, we will have implemented or will consider implementing programs to respond.

Initiatives sponsored by government agencies, legislative bodies and the private sector to limit the growth of healthcare costs, including price regulation and competitive pricing, are ongoing in other markets where we do business.

Further, the Affordable Care Act encourages hospitals and physicians to work collaboratively through shared savings programs, such as accountable care organizations, as well as other bundled payment initiatives, which may ultimately result in the reduction of medical device purchases and the consolidation of medical device suppliers used by hospitals.

Changes in the healthcare industry may require us to decrease the selling price for our products, may reduce the size of the market for our products, or may eliminate a market, any of which could have a negative impact on our financial performance.

Trends toward managed care, healthcare cost containment and other changes in government and private sector initiatives in the United States and other countries in which we do business are placing increased emphasis on the delivery of more cost-effective medical therapies that could adversely affect the sale and/or the prices of our products. For example:

- as mentioned above, the Affordable Care Act, which is intended to expand access to health insurance coverage over time, has resulted in and will continue to result in major changes in the United States healthcare system that have had and could continue to have an adverse effect on our business, including a 2.3% excise tax on U.S. sales of most medical devices, implemented in 2013, which has adversely affected our earnings through the end of 2015 (Note: even though President Obama signed into law The Consolidated Appropriations Act in December 2015, which included a two-year moratorium on the 2.3% excise tax for medical device revenues earned in 2016 and 2017, the 2.3% excise tax automatically will be reinstated for sales of medical devices on or after January 1, 2018 unless there is further legislative action);

- third-party payors of hospital services and hospital outpatient services, including Medicare, Medicaid, private and public health insurers and foreign governmental health systems, annually revise their payment methodologies, which can result in stricter standards for reimbursement of hospital charges for certain medical procedures or the elimination of reimbursement;
- foreign governmental health systems have revised, and continue to consider whether to revise, their payment methodologies, which have resulted and could continue to result in stricter standards for reimbursement of hospital charges for certain medical procedures leading to less government reimbursement, thereby putting downward pricing pressure on our products or rendering some uneconomical;
- Medicare, Medicaid, private and public health insurer and foreign governmental cutbacks could create downward price pressure on our products;
- in the United States, local Medicare coverage as well as commercial carrier coverage determinations will reduce or eliminate reimbursement or coverage for certain of our wound matrix products as well as other collagen products in most regions, negatively affecting our market for these products, and future determinations could reduce or eliminate reimbursement or coverage for these products in other regions and could reduce or eliminate reimbursement or coverage for other products;
- there has been a consolidation among healthcare facilities and purchasers of medical devices in the United States, some of whom prefer to limit the number of suppliers from whom they purchase medical products, and these entities may decide to stop purchasing our products or demand discounts on our prices;
- there has been a growing movement of physicians becoming employees of hospitals and other healthcare entities, which aligns surgeon product choices with his or her employers' purchasing decisions, and adds to pricing pressures;
- in the United States, we are party to contracts with group purchasing organizations, which negotiate pricing for many member hospitals, that require us to discount our prices for certain of our products and limit our ability to raise prices for certain of our products, particularly surgical instruments;
- there is economic pressure to contain healthcare costs in domestic and international markets, and, regardless of the consolidation discussed above, providers generally are exploring ways to cut costs by eliminating purchases or driving reductions in the prices that they pay for medical devices;
- there are proposed and existing laws, regulations and industry policies in domestic and international markets regulating the sales and marketing practices and the pricing and profitability of companies in the healthcare industry;
- proposed laws or regulations will permit hospitals to provide financial incentives to doctors for reducing hospital costs (known as gainsharing), will award physician efficiency (known as physician profiling), and will encourage partnerships with healthcare service and goods providers to reduce prices; and
- there have been initiatives by third-party payors and foreign governmental health systems to challenge the prices charged for medical products that could affect our ability to sell products on a competitive basis.

Any and all of the above factors could adversely affect our levels of revenue and our profitability.

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

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

- take a significant amount of time;
- require the expenditure of substantial financial and other resources;
- involve rigorous and expensive pre-clinical and clinical testing, as well as increased post-market surveillance;
- 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, 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.

We are also subject to the Medical Device Directive for our medical devices that are CE Marked and sold in the EU. We are also subject to Good Manufacturing Practice regulations for Pharmaceuticals in the EU for certain of our products. These regulations also mandate that manufacturers of medical devices (or those that are considered pharmaceuticals) adhere to certain quality assurance requirements pertaining to, among other things, validation of manufacturing processes, controls for purchasing product components, and documentation practices. There may be additional regulations if such products are considered pharmaceuticals outside the U.S.

The FDA has intensified 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 an outstanding FDA warning letter related to TEI, an acquisition by Integra on July 17, 2015. TEI received a Warning Letter from the FDA dated May 29, 2015 for promoting the product SurgiMend for breast surgery applications that were not cleared in the 510(k) process and do not have a PMA Approval for the indication. The FDA requested that TEI immediately cease all activities that resulted in misbranding or adulteration of the product in commercial distribution. The FDA also required TEI to cease all violations regarding promotion of the product for an indication that was not cleared or approved. TEI responded with a corrective action plan to the FDA and took action to address the issues prior to the completion of the acquisition. We will continue to monitor this activity and address all corrective actions submitted to the FDA. The FDA may not accept our corrective action plan or it may choose to scrutinize other promotional claims regarding TEI’s or our products and require additional corrective actions.

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

The FDA 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 law will affect the fees paid to the FDA over the five-year period that FDASIA is in effect. As part of FDASIA, there are additional requirements regarding the FDA Establishment Registration and Listing of Medical Devices. All U.S. and foreign manufacturers must register and list medical devices for sale in the U.S. All of our facilities comply with these requirements. That said, we also source products from foreign contract manufacturers. From this business practice, it is possible that some of our foreign contract manufacturers will not comply with these 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 ("GUDID"), 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.

We have complied with the initial requirements of this regulation for our Class III products by meeting the September 2014 deadline, our Class II implantable products by meeting the September 2015 deadline and for all Class II products by meeting the September 2016 deadline for labeling and entering the data in FDA's GUDID Database.

Finally, the FDA issued regulations regarding “Current Good Manufacturing Practice Requirements for Combination Products” on January 22, 2013. These regulations apply to some of our product lines that have been designated by the FDA as Combination Products. There have been and will be additional costs associated with compliance with the FDA Good Manufacturing Practice Requirements regulations for Combination Products.

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 more stringent 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.

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, wound care products, bone void fillers, nerve and tendon repair products and certain other products, contain material derived from bovine tissue. In 2016, approximately 41% 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. 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 bovine tissue for relative risk of BSE transmission. Deep flexor tendon and bovine fetal skin, which are used in our products, are in the lowest-risk categories for BSE transmission and are 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 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 a country where no cases of BSE have occurred. Currently, we source bovine fetal hides from the United States and purchase tendon from the United States and New Zealand. New Zealand has never had a case of BSE. 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.

Certain of our products are derived from human tissue and are subject to additional regulations and requirements.
We distribute medical devices derived from human tissue. The FDA has specific regulations governing human cells, tissues and cellular and tissue-based products, or HCT/Ps. An HCT/P is a product containing or consisting of human cells or tissue intended for transplantation into a human patient. Examples include bone, ligament, skin and cornea. Some HCT/Ps also meet the definition of a biological product, medical device or drug regulated under the FD&C Act. Section 361 of the PHSA ACT and 21 CFR Part 1271 authorizes the FDA to issue regulations regarding HCT/Ps and regulations to prevent the introduction, transmission or spread of communicable disease. HCT/Ps regulated as "361" HCT/Ps are subject to requirements relating to registering facilities and listing products with FDA, screening and testing for tissue donor eligibility, Good Tissue Practice, or GTP, when processing, storing, labeling, and distribution HCT/Ps, including required labeling information, stringent record keeping; and adverse event reporting. These biologic, device or drug HCT/Ps must comply both with the requirements exclusively applicable to 361 HCT/Ps and, in addition, with requirements applicable to biologics, devices or drugs, including premarket clearance or approval.
Lack of market acceptance for our products or market preference for technologies that compete with our products could reduce our revenues and profitability.
We cannot be certain that our current products or any other products that we develop or market will achieve or maintain market acceptance. Certain of the medical indications that our devices can treat can also be treated by other medical devices or by medical practices that do not include a device. The medical community widely accepts many alternative treatments, and certain of these other treatments have a long history of use. For example, the use of autograft tissue is a well-established means for repairing the dermis, and it competes for acceptance in the market with our collagen-based wound care products.
We cannot be certain that our new devices and procedures will be able to replace those established treatments or that physicians, the medical community or third-party payors, including Medicare, Medicaid, private and public health insurers and foreign governmental health systems, will accept and utilize our devices or any other medical products that we may develop. For example, greater market acceptance of our wound graft products may ultimately depend on our ability to demonstrate that higher rates of reimbursement are justified because they are an attractive and cost-effective alternative to other treatment options. Additionally, if there are negative events in the industry, whether real or perceived, there could be a negative impact on the industry as a whole. For example, we believe that some in the medical community have lingering concerns over the risk of disease transmission through the use of natural bone graft substitutes.
In addition, our future success depends, in part, on our ability to license and develop additional products. Even if we determine that a product candidate has medical benefits, the cost of commercializing that product candidate, either through internal development or payments associated with licensing arrangements, could be too high to justify development. Competitors could develop products that are more effective, achieve or maintain more favorable reimbursement status from third-party payors both domestically and internationally, including Medicare, Medicaid, private and public health insurers, and foreign governmental health systems, cost less or are ready for commercial introduction before our products. If we are unable to develop additional commercially viable products, our future prospects could be adversely affected.
Market acceptance of our products depends on many factors, including our ability to convince prospective collaborators and customers that our technology is an attractive alternative to other technologies, to manufacture products in sufficient quantities and at acceptable costs, and to supply and service sufficient quantities of our products directly or through our distribution alliances. In addition, unfavorable reimbursement methodologies, or adverse determinations of third-party payors, including Medicare, Medicaid, private and public health insurers, and foreign governmental health systems, regarding our products or third-party determinations that favor a competitor's product over ours, could harm acceptance or continued use of our products. The industry is subject to rapid and continuous change arising from, among other things, consolidation, technological improvements, the pressure on governments, third-party payors and providers to reduce healthcare costs, and healthcare reform legislation and initiatives domestically and internationally. One or more of these factors may vary unpredictably, and such variations could have a material adverse effect on our competitive position. We may not be able to adjust our contemplated plan of development to meet changing market demands.

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

Current economic conditions, especially in Europe as well as in Brazil, Russia, China and Mexico, may adversely affect the ability of hospitals and other customers to access funds to enable them to fund their operating and capital budgets. As a result, hospitals and other customers may reduce budgets or put all or part of their budgets on hold or close their operations, which could have a negative effect on our sales, particularly the sales of capital equipment such as our ultrasonic surgical aspirators, neuromonitors and stereotactic products, or result in a reduction in elective and non-reimbursed procedures. Governmental austerity

policies in Europe and other markets have reduced and could continue to reduce the amount of money available to purchase medical products, including our products.

We may have additional tax liabilities

We are subject to income taxes in the U.S. and many foreign jurisdictions and are commonly audited by various tax authorities. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Significant judgment is required in determining our worldwide provision for income taxes. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. The results of an audit or litigation could have a material effect on our financial statements in the period or periods for which that determination is made.

A significant amount of our net profits and cash flows are generated from outside the U.S., and certain repatriation of funds currently held in foreign jurisdictions may result in higher effective tax rates for the Company. In addition, there have been proposals to change U.S. tax laws that could significantly impact how U.S. global corporations are taxed. Although we cannot predict whether or in what form proposed legislation may pass, if enacted certain proposals could have a material adverse impact on our tax expense and cash flow.

Disruptions in the financial markets may adversely affect the availability and cost of credit to us.

On December 7, 2016, the Company entered into its fourth amended and restated Senior Credit Facility (the "Fourth Amendment and Restatement"). As of February 21, 2017, we had approximately $665.0 million of outstanding borrowings under this financing arrangement. The Company may attempt to refinance or extend this obligation depending on prevailing market conditions. Our ability to refinance or extend this obligation will depend on our operating and financial performance, which in turn is subject to prevailing economic conditions and financial, business and other factors beyond our control. Any disruptions in our operations, the financial markets, or overall economy may adversely affect the availability and cost of credit to us. The Company’s 2016 Convertible Notes (hereinafter defined) matured and settled in December 2016.

It could be difficult to replace some of our suppliers.

Outside vendors, some of whom are sole-source suppliers, provide key components and raw materials used in the manufacture of our products. Although we believe that alternative sources for many of these components and raw materials are available, any interruption in supply of a limited or sole-source component or raw material could harm our ability to manufacture our products until a new or alternative source of supply is identified and qualified. In addition, an uncorrected defect or supplier’s variation in a component or raw material, either unknown to us or incompatible with our manufacturing process, could harm our ability to manufacture products. We may not be able to find a sufficient alternative supplier in a reasonable time period, or on commercially reasonable terms, if at all, and our ability to produce and supply our products could be impaired. We believe that these factors are most likely to affect the following products that we manufacture:

- our collagen-based products, such as the Integra Dermal Regeneration Template and wound matrix products, the DuraGen® family of products, our Absorbable Collagen Sponges, Primatrix and SurgiMend products;
- our products made from silicone, such as our neurosurgical shunts and drainage systems and hemodynamic shunts;
- products which use many different specialty parts from numerous suppliers, such as our intracranial monitors, catheters and headlights; and
- products that use pyrolytic carbon (i.e., PyroCarbon) technology, such as certain of our reconstructive extremity orthopedic implants.

In connection with our Confluent Surgical acquisition in January 2014, we entered into a multi-year supply agreement with an affiliate of the seller to continue to manufacture the acquired surgical sealant and adhesion barrier product lines. In 2015, we entered into a contract with a third party to assume the manufacturing of these product lines after the relationship with the affiliate of the seller concludes in several years.

If we were suddenly unable to purchase products from one or more of these companies, we would need a significant period of time to qualify a replacement, and the production of any affected products could be disrupted.

While it is our policy to maintain sufficient inventory of components so that our production will not be significantly disrupted even if a particular component or material is not available for a period of time, we remain at risk that we will

not be able to qualify new components or materials quickly enough to prevent a disruption if one or more of our suppliers ceases production of important components or materials.

Our intellectual property rights may not provide meaningful commercial protection for our products, potentially enabling third parties to use our technology or very similar technology and could reduce our ability to compete in the market.

To compete effectively, we depend, in part, on our ability to maintain the proprietary nature of our technologies and manufacturing processes, which includes the ability to obtain, protect and enforce patents on our technology and to protect our trade secrets. We own or have licensed patents that cover aspects of some of our product lines. Our patents, however, may not provide us with any significant competitive advantage. Others may challenge our patents and, as a result, our patents could be narrowed, invalidated or rendered unenforceable. Competitors may develop products similar to ours that our patents do not cover. In addition, the approval or rejection of patent applications may take several years and our current and future patent applications may not result in the issuance of patents in the United States or foreign countries.

Our competitive position depends, in part, upon unpatented trade secrets which we may be unable to protect.

Our competitive position also depends upon unpatented trade secrets, which are difficult to protect. We cannot assure you that others will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets, that our trade secrets will not be disclosed or that we can effectively protect our rights to unpatented trade secrets.

In an effort to protect our trade secrets, we require our employees, consultants and advisors to execute confidentiality and invention assignment agreements upon commencement of employment or consulting relationships with us. These agreements provide that, except in specified circumstances, all confidential information developed or made known to the individual during the course of their relationship with us must be kept confidential. We cannot assure you, however, that these agreements will provide meaningful protection for our trade secrets or other proprietary information in the event of the unauthorized use or disclosure of confidential information.

Our success will depend partly on our ability to operate without infringing or misappropriating the proprietary rights of others.

We may be sued for infringing the intellectual property rights of others. In addition, we may find it necessary, if threatened, to initiate a lawsuit seeking a declaration from a court that we do not infringe the proprietary rights of others or that their rights are invalid or unenforceable. If we do not prevail in any litigation, in addition to any damages we might have to pay, we would be required to stop the infringing activity (which could include a cessation of selling the products in question) or obtain a license for the proprietary rights involved. Any required license may be unavailable to us on acceptable terms, if at all. In addition, some licenses may be nonexclusive and allow our competitors to access the same technology we license.

If we fail to obtain a required license or are unable to design our products so as not to infringe on the proprietary rights of others, we may be unable to sell some of our products, and this potential inability could have a material adverse effect on our revenues and profitability.

We may be involved in lawsuits relating to our intellectual property rights and promotional practices, which may be expensive.

To protect or enforce our intellectual property rights, we may have to initiate or defend legal proceedings, such as infringement suits or opposition proceedings, against or by third parties. In addition, we may have to institute proceedings regarding our competitors’ promotional practices or defend proceedings regarding our promotional practices. Legal proceedings are costly, and, even if we prevail, the cost of the legal proceedings could affect our profitability. In addition, litigation is time-consuming and could divert management's attention and resources away from our business. Moreover, in response to our claims against other parties, those parties could assert counterclaims against us.

Pending litigation related to the proposed acquisition of Derma Sciences could result in a judgment for rescission or the payment of damages.

Purported stockholders of Derma Sciences have filed three class action lawsuits challenging the proposed acquisition of Derma Sciences by Integra and its subsidiary, Integra Derma, Inc. (the “Proposed Acquisition”). On January 30 and February 3, 2017, complaints captioned Rabadi v. Derma Sciences, Inc., et al., Case No. 3:17-cv-00628 (the “Rabadi Complaint”) and Klingel v. Derma Sciences, Inc., et al., Case No. 3:17-cv-00738, were filed in the United States District Court for the District of New Jersey against Derma Sciences, each member of its board of directors (the

"Derma Sciences Board"), Integra, and Integra Derma, Inc. On January 31, 2017, a complaint captioned Parshall v. Derma Sciences, Inc., et al., Case No. 2017-0074 (the "Parshall Complaint"), was filed in the Court of Chancery of the State of Delaware against Derma Sciences, each member of the Derma Sciences Board, Integra, and Integra Derma, Inc. The complaints seek certification of a class action on behalf of all Derma Sciences' public stockholders. Each complaint alleges, among other things, that the process leading up to the Proposed Acquisition, including Integra's offer to purchase the outstanding shares of Derma Sciences, was inadequate, and that the Schedule 14D-9 filed by Derma Sciences on January 25, 2017 omits certain material information, which each complaint alleges renders the information disclosed materially misleading. The Rabadi Complaint and the Parshall Complaint also allege that the members of the Derma Sciences Board breached their fiduciary duties with respect to the Proposed Acquisition, and that Integra, Integra Derma, Inc. and Derma Sciences aided and abetted those alleged breaches of fiduciary duties. Each complaint seeks, among other things, to rescind the

Proposed Acquisition or recover money damages in the event the Proposed Acquisition is consummated. While the complaints also sought to enjoin the Proposed Acquisition, on February 9, 2017, plaintiffs agreed to not pursue preliminary injunctive relief in return for Derma Sciences making certain additional disclosures. Other potential plaintiffs may file additional lawsuits challenging the Proposed Acquisition. The outcome of any such litigation is uncertain. An adverse judgment for rescission or for monetary damages could have a material adverse effect on Integra following the Proposed Acquisition.

The pending acquisitions of Codman Neurosurgery and Derma Sciences are each subject to a number of conditions, which, if not fulfilled, may result in termination of the underlying acquisition agreement.

The underlying acquisition agreements for the Codman Neurosurgery transaction and the Derma Sciences transaction each contain a number of customary conditions to complete the applicable acquisition, including that certain representations and warranties be accurate, that certain covenants be fulfilled, that certain regulatory approvals have been obtained, that there be no legal prohibitions against completion of the acquisition, and, in the case of the Derma Sciences acquisition, that a sufficient number Derma Sciences' stockholders validly tender their shares in the Offer and not properly withdraw such shares prior to the expiration of the Offer. Many of the conditions to complete the acquisitions are not within our control or the applicable counterparty's control, and neither of us can predict when or if these conditions will be satisfied. With respect to the Codman Neurosurgery transaction, if any of these conditions are not satisfied or waived prior to October 1, 2017, which date may be extended to October 15, 2017 under certain circumstances, it is possible that the acquisition will not be completed in the expected time frame or that the asset purchase agreement may be terminated.

The regulatory approvals required in connection with our pending acquisition of Codman Neurosurgery may not be obtained or may contain materially burdensome conditions.

Completion of our pending acquisition of Codman Neurosurgery is conditioned upon the receipt of certain regulatory approvals, and we cannot provide assurance that these approvals will be obtained. If any conditions, including with respect to divestitures, or changes to the proposed structure of the acquisition are required to obtain these regulatory approvals, they may have the effect of jeopardizing or delaying completion of the pending acquisition or reducing the anticipated benefits of the pending acquisition. If we are required to agree to any material conditions in order to obtain any approvals required to complete the pending acquisition, the business and results of operations of our company following the closing may be adversely affected.

Failure to complete the Codman Neurosurgery and/or Derma Sciences acquisitions could negatively impact our stock price and our future business and financial results.

As described above, the obligations to consummate the pending acquisitions of Codman Neurosurgery and Derma Sciences are, in each case, subject to the satisfaction or waidver of certain customary conditions. We cannot provide assurance that the applicable conditions to the completion of these pending acquisitions will be satisfied in a timely manner or at all. If either of these pending acquisitions are not completed, our share price could fall to the extent that our current price reflects an assumption that we will complete the pending acquisitions. Furthermore, if each acquisition is not completed, our ongoing business may be adversely affected, and we will be subject to several risks, including the following:

- we will be required to pay certain costs relating to the acquisitions, whether or not they are completed, such as legal, accounting, and financial advisers, which could be substantial;
- in the case of the Codman Neurosurgery acquisition, we may be obligated to pay a termination fee equal to $60 million if the underlying acquisition agreement is terminated under certain circumstances related to the financing of the transaction;
- if our counterparty can make a successful claim that there was, in the case of the Codman Neurosurgery, fraud, willful misconduct or a knowing and intentional material breach or, in the case of Derma Sciences, a willful and material breach, prior to termination, we may incur substantial costs of litigation and may be liable for damages which may be material;
- our management will have focused its attention on negotiating and preparing for the acquisitions instead of on pursuing other opportunities that could have been beneficial to us;
- the failure to consummate the acquisitions may result in negative publicity and a negative impression of us in the investment community; and

- any disruptions to our business resulting from the announcement of the acquisitions, including any adverse changes in our relationships with our customers, partners and employees, may continue or intensify in the event either acquisition is not consummated.

If we do not successfully integrate newly acquired businesses into our business operations, including Codman Neurosurgery and Derma Sciences, our business could be adversely affected.

We will need to successfully integrate the operations of recently and pending acquired businesses, including our pending acquisitions of Codman Neurosurgery and Derma Sciences, with our business operations. The failure to integrate the business operations of the acquired business successfully would have a material adverse effect on our business, financial condition and results of operations. As a result of these pending acquisitions and any other future acquisitions, we will undergo substantial changes in a short period of time and our business will change and broaden in size and the scope of products we offer. Integrating the operations of multiple new businesses with that of our own is a complex, costly and time-consuming process, which requires

significant management attention and resources to integrate the business practice and operations. The integration process may disrupt the businesses and, if implemented ineffectively, would preclude realization of the full benefits expected by us. Our failure to meet the challenges involved in integrating the businesses in order to realize the anticipated benefits of the acquisitions could cause an interruption of, or a loss of momentum in, our activities and could adversely affect our results of operations. Prior to each acquisition, the acquired business operated independently, with its own business, corporate culture, locations, employees and systems. There may be substantial difficulties, costs and delays involved in any integration of other businesses with that of our own. These may include:

- distracting management from day-to-day operations;
- potential incompatibility of corporate cultures;
- an inability to achieve synergies as planned;
- risks associated with the assumption of contingent or other liabilities of acquisition targets;
- adverse effects on existing business relationships with suppliers or customers, including failure to retain key customers and suppliers;
- failure to retain key employees of our company and of the acquired businesses;
- inheriting and uncovering previously unknown issues, problems and costs from the acquired company;
- delays between our expenditures to acquire new products, technologies or businesses and the generation of revenues from those acquired products, technologies or businesses;
- realization of assets and settlement of liabilities at amounts equal to estimated fair value as of the acquisition date of any acquisition or disposition;
- costs and delays in implementing common systems and procedures (including technology, compliance programs, financial systems, distribution and general business operations, among others);
- liabilities that are significantly larger than we currently anticipate and unforeseen increased expenses or delays associated with the acquisitions, including transition costs to integrate the businesses that may exceed the costs that we currently anticipate;
- challenges involved with the increased scale of our operations resulting from the acquisitions; and
- increased difficulties in managing our business due to the addition of international locations.

These risks may be heightened in cases where the majority of the former businesses' operations, employees and customers are located outside of the United States. Any one or all of these factors may increase operating costs or lower anticipated financial performance. Many of these factors are also outside of our control. In addition, dispositions of certain key products, technologies and other rights, including pursuant to conditions imposed on us to obtain regulatory approvals, may affect our business operations.

In addition, even if the operations of the businesses are integrated successfully, we may not realize the full benefits of the acquisition, including the synergies, cost savings or sales or growth opportunities that we expect. These benefits may not be achieved within the anticipated time frame, or at all. Additional unanticipated costs may be incurred in the integration of the businesses. All of these factors could cause a reduction to our earnings per share, decrease or delay the expected accretive effect of the transaction, and negatively impact the price of our ordinary shares.

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, California facility is 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 and acts of terrorism. Thus far, strikes and acts of terrorism have not had a material impact on our business; however,

if either 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 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 may experience difficulties, delays, performance impact or unexpected costs from consolidation of facilities.

We consolidated several facilities in 2015 and 2016, and may further consolidate our operations in the future in order to improve our cost structure, achieve increased operating efficiencies, and improve our competitive standing or results of operations and/or to address unfavorable economic conditions. As part of these initiatives, we may also lose favorable tax incentives or not be able to renew leases on acceptable terms. We may further reduce staff, make changes to certain capital projects, close certain production operations and abandon leases for certain facilities that will not be used in our operations. In conjunction with any actions, we will continue to make significant investments and build the framework for our future growth. We may not realize, in full or in part, the anticipated benefits and savings from these efforts because of unforeseen difficulties, delays, implementation issues or unexpected costs. If we are unable to achieve or maintain all of the resulting savings or benefits to our business or other unforeseen events occur, our business and results of operations may be adversely affected.

We are exposed to a variety of risks relating to our international sales and operations, including fluctuations in exchange rates, local economic conditions and delays in collection of accounts receivable.

We generate significant revenues outside the United States in multiple foreign currencies including euros, British pounds, Swiss francs, Canadian dollars, Japanese yen and Australian dollars, and in U.S. dollar-denominated transactions conducted with customers who generate revenue in currencies other than the U.S. dollar. For those foreign customers who purchase our products in U.S. dollars, currency fluctuations between the U.S. dollar and the currencies in which those customers do business may have a negative impact on the demand for our products in foreign countries where the U.S. dollar has increased in value compared to the local currency.

Since we have operations based outside the United States and we generate revenues and incur operating expenses in multiple foreign currencies including euros, British pounds, Swiss francs, Canadian dollars, Japanese yen, Australian dollars, Mexican pesos, Brazilian reais and Chinese yuan, we experience currency exchange risk with respect to those foreign currency-denominated revenues and expenses. Our most significant currency exchange risk relates to transactions conducted in euros, Canadian dollars, Australian dollars, and Chinese yuan.

We cannot predict the consolidated effects of exchange rate fluctuations upon our future operating results because of the number of currencies involved, the variability of currency exposure and the potential volatility of currency exchange rates. Although we address currency risk management through regular operating and financing activities, and, on a limited basis, through the use of derivative financial instruments, those actions may not prove to be fully effective. For a description of our use of derivative financial instruments, see Note 6, Derivative Instruments in our consolidated financial statements.

Our international operations subject us to laws regarding sanctioned countries, entities and persons, customs, import-export, laws regarding transactions in foreign countries, the U.S. Foreign Corrupt Practices Act and local anti-bribery and other laws regarding interactions with healthcare professionals, and product registration requirements. Among other things, these laws restrict, and in some cases prevent, U.S. companies from directly or indirectly selling goods, technology or services to people or entities in certain countries. In addition, these laws require that we exercise care in structuring our sales and marketing practices and effecting product registrations in foreign countries.

Local economic conditions, legal, regulatory or political considerations, disruptions from strikes, the effectiveness of our sales representatives and distributors, local competition, in-country reimbursement methodologies and changes in local medical practice could also affect our sales to foreign markets. Relationships with customers and effective terms of sale frequently vary by country, often with longer-term receivables than are typical in the United States.

Oversight of the medical device industry might affect the manner in which we may sell medical devices and compete in the marketplace.

There are laws and regulations that govern the means by which companies in the healthcare industry may market their products to healthcare professionals and may compete by discounting the prices of their products, including for example, the federal Anti-Kickback Statute, the federal False Claims Act, the federal Health Insurance Portability and Accountability Act of 1996, state law equivalents to these federal laws that are meant to protect against fraud and abuse and analogous laws in foreign countries. Violations of these laws are punishable by criminal and civil sanctions, including, but not limited to, in some instances civil and criminal

penalties, damages, fines, exclusion from participation in federal and state healthcare programs, including Medicare and Medicaid. Although we exercise care in structuring our sales and marketing practices and customer discount arrangements to comply with those laws and regulations, we cannot assure that:

- government officials charged with responsibility for enforcing those laws will not assert that our sales and marketing practices or customer discount arrangements are in violation of those laws or regulations; or
- government regulators or courts will interpret those laws or regulations in a manner consistent with our interpretation.

Correspondingly, federal and state laws are also sometimes open to interpretation, and from time to time we may find ourselves at a competitive disadvantage if our interpretation differs from that of our competitors. AdvaMed (for the U.S. and China), EucoMed (Europe), MEDEC (Canada), and MTAA (Australia), some of the principal trade associations for the medical device industry, promulgate model codes of ethics that set forth standards by which its members should (and non-member companies may) abide in the promotion of their products; AdvaMed is undergoing initiatives in Latin America and Asia Pacific to develop regional codes of ethics there as well, including the launch of a new Code of Ethics in China. We have in place policies and procedures for compliance that we believe are at least as stringent as those set forth in the revised AdvaMed Code, and we regularly train our sales and marketing personnel on our policies regarding sales and marketing practices. Pursuant to the revised AdvaMed Code, we have certified our adoption of the revised AdvaMed Code. Nevertheless, the sales and marketing practices of our industry have been the subject of increased scrutiny from federal and state government agencies, and we believe that this trend will continue. For example, federal legislation, state legislation and foreign legislation requires detailed disclosure of gifts and other remuneration made to healthcare professionals. In addition, prosecutorial scrutiny over the past several years and governmental oversight, on the state and federal levels, over some major device companies regarding the retention of healthcare professionals as consultants has limited the manner in which medical device companies may retain healthcare professionals as consultants. Various hospital organizations, medical societies and trade associations are establishing their own practices that may require detailed disclosures of relationships between healthcare professionals and medical device companies or ban or restrict certain marketing and sales practices such as gifts and business meals.

Our private-label product lines depend significantly on key relationships with third parties, which we could be unable to establish and maintain.

Our private-label business depends in part on our entering into and maintaining collaborative or alliance agreements with third parties concerning product marketing, as well as research and development programs. The third parties with whom we have entered into agreements might terminate these agreements for a variety of reasons, including developing other sources for the products that we supply. Termination of our most important relationships could adversely affect our expectations for the growth of private-label products.

We may have significant product liability exposure and our insurance may not cover all potential claims.

We are exposed to product liability and other claims in the event that our technologies or products are alleged to have caused harm. We may not be able to obtain insurance for the potential liability on acceptable terms with adequate coverage or at reasonable costs. Any potential product liability claims could exceed the amount of our insurance coverage or may be excluded from coverage under the terms of the policy. Our insurance may not be renewed at a cost and level of coverage comparable to that then in effect.

We are subject to requirements relating to hazardous materials which may impose significant compliance or other costs on us.

Our manufacturing, product development, research, and development operations and processes involve the controlled use of certain hazardous materials. In addition, we own and/or lease a number of facilities at which hazardous materials have been used in the past. Finally, we have acquired various companies that historically have used certain hazardous materials and that have owned and/or leased facilities at which hazardous materials have been used. For all of these reasons, we are subject to federal, state, foreign, and local laws and regulations governing the use, manufacture, storage, transportation, handling, treatment, remediation, and disposal of hazardous materials and certain waste products ("Environmental, Health, Safety and Transportation Laws"). Although we believe that our procedures for handling, transporting, and disposing of hazardous materials comply with the Environmental, Health, Safety and Transportation Laws, the Environmental Health, Safety and Transportation Laws may be amended in ways that

increase our cost of compliance, perhaps materially.

Furthermore, the potential risk of accidental contamination or injury from these materials cannot be eliminated, and there is also a risk that such contamination previously has occurred in connection with one of our facilities or in connection with one of the companies we have purchased. In the event of such an accident or contamination, we could be held liable for any damages that result and any related liability could exceed the limits or fall outside the coverage of our insurance and could exceed our resources. We may not be able to maintain insurance on acceptable terms or at all.

We may experience difficulties implementing our common global enterprise resource planning system.
We are engaged in a multi-year implementation of a new global enterprise resource planning system to improve our operational efficiency. Currently we have approximately 90% of our revenue on one system. The ERP system is designed to accurately maintain our financial reporting data and provide information to our management team important to the operation of the business. Our ERP system has required, and will require, the investment of significant human and financial resources. The implementation of this ERP involves numerous risks, including disruption to our normal accounting procedures and internal control over financial reporting, inaccuracies in the conversion of electronic data, difficulties integrating the systems and processes, additional costs to continue to refine the system's functionality, and disruption of our financial reporting process. We may not be able to successfully implement the ERP without experiencing significant delays, increased costs, or other difficulties. Any significant disruption or deficiency in the design or implementation of the ERP could adversely affect our ability to estimate supply chain needs, plan production requirements, process orders, ship product, send invoices and track payments, fulfill contractual obligations, accurately forecast sales, or otherwise operate our business, all of which could negatively impact sales and profits. While a significant portion of the Company is running on our new ERP system as of December 31, 2016, we will continue to face similar risks in implementing our ERP system within the remaining sites as we continue to maintain multiple legacy ERP systems.

We are dependent on information technology and if we fail to properly maintain the integrity of our data, our business could be adversely 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 our 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.
Regulations related to "conflict minerals" may force us to incur additional expenses, may make our supply chain more complex and may result in damage to our reputation with customers.

On August 22, 2012, the Securities and Exchange Commission adopted disclosure regulations for public companies that manufacture products that contain certain minerals (i.e., tin, tantalum, tungsten or gold) known as conflict minerals, if these conflict minerals are necessary to the functionality or production of our products. These regulations require such companies to report annually whether or not such conflict minerals originate from the Democratic Republic of Congo ("DRC") and adjoining countries and in some cases to perform extensive due diligence on their supply chains for such conflict minerals. The implementation of these requirements could adversely affect the sourcing, availability and pricing of tin, tantalum, tungsten and gold used in the manufacture of medical devices, including our products. In addition, we may incur additional costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant conflict minerals used in our products. Since our supply chain is complex, the due diligence procedures that we implement may not enable us to determine the origins for these conflict minerals or determine that these conflict minerals are DRC conflict-free, which may harm

our reputation. We may also face difficulties in satisfying any customers who may require that our products be certified as DRC conflict-free, which could harm our relationships with these customers and result in a loss of revenue. These requirements also could have the effect of limiting the pool of suppliers from which we source tin, tantalum, tungsten and gold, and we may be unable to obtain conflict-free minerals at competitive prices, which could increase our costs and adversely affect our manufacturing operations and our profitability.

ITEM 1B. UNRESOLVED STAFF COMMENTS

As of the filing of this Annual Report on Form 10-K, we had no unresolved comments from the staff of the Securities and Exchange Commission that were received not less than 180 days before the end of our 2016 fiscal year.

ITEM 2. PROPERTIES

Our principal executive offices are located in Plainsboro, New Jersey. Our principal manufacturing and research facilities are located in New Jersey, Ohio, Pennsylvania, California, Massachusetts, France, Germany, Ireland, Mexico, and Puerto Rico. Our instrument procurement operations are located in Germany. Our primary distribution centers are located in Nevada, Ohio, Pennsylvania, Australia, Belgium, Canada and France. In addition, we lease several smaller facilities to support additional administrative, assembly, and distribution operations. Third parties own and operate the facilities in Nevada and Belgium. We own our facilities in Biot, France, Saint Aubin Le Monial, France, Rietheim-Weilheim, Germany and certain facilities in Ohio and Pennsylvania, and we lease all of our other facilities. We also have repair centers in California, Massachusetts, Ohio, Australia and Germany.

Our manufacturing facilities are registered with the FDA. Our facilities are subject to FDA inspection to ensure compliance with Quality System regulations. For further information regarding the status of FDA inspections, see the "Government Regulation" and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Update on Remediation Activities" sections in this Form 10-K.

ITEM 3. 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.

TEI, an acquisition by Integra on July 17, 2015, manufactures a bovine-derived surgical mesh product for Boston Scientific Corporation ("BSC") and has been named as a defendant in lawsuits under a broad range of products liability theories, many of which have not been served on TEI. Currently, there are approximately fifty active cases against TEI. Pursuant to an indemnification agreement with BSC (i) BSC is managing the litigation; (ii) TEI has in place a products liability insurance policy, of which it must exhaust $3.0 million before BSC's indemnity begins to cover relevant claims (and of which only a small portion has been utilized to date and against which the insurer has reserved the entire $3.0 million). Because the thrust of products liability litigation focuses on synthetic surgical mesh products, counsel is filing motions to dismiss on behalf of TEI in many cases. In addition, Integra has certain protections in the merger agreements with TEI which would indemnify the Company for approximately $30.0 million for the first fifteen months after closing and between $20.0 and $30.0 million for the remainder of the three-year period after closing for losses relating to a variety of matters, including half of certain products liability claims (including those related to the product it manufactures for BSC) not covered by insurance. As of February 23, 2017, no indemnification payments were received nor owed in relation to the lawsuits for the initial indemnification time period, which covered the first fifteen months after closing.

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.

Purported stockholders of Derma Sciences have filed three class action lawsuits challenging the proposed acquisition of Derma Sciences by Integra and its subsidiary, Integra Derma, Inc. (the "Proposed Acquisition"). On January 30 and February 3, 2017, complaints captioned Rabadi v. Derma Sciences, Inc., et al., Case No. 3:17-cv-00628 (the "Rabadi

Complaint") and Klingel v. Derma Sciences, Inc., et al., Case No. 3:17-cv-00738, were filed in the United States District Court for the District of New Jersey against Derma Sciences, each member of its board of directors (the "Derma Sciences Board"), Integra, and Integra Derma, Inc. On January 31, 2017, a complaint captioned Parshall v. Derma Sciences, Inc., et al., Case No. 2017-0074 (the "Parshall Complaint"), was filed in the Court of Chancery of the State of Delaware against Derma Sciences, each member of the Derma Sciences Board, Integra, and Integra Derma, Inc. The complaints seek certification of a class action on behalf of all Derma Sciences' public stockholders. Each complaint alleges, among other things, that the process leading up to the Proposed Acquisition, including Integra's offer to purchase the outstanding shares of Derma Sciences, was inadequate, and that the Schedule 14D-9 filed by Derma Sciences on January 25, 2017 omits certain material information, which each complaint alleges renders the information disclosed materially misleading. The Rabadi Complaint and the Parshall Complaint also allege that the members of the Derma Sciences Board breached their fiduciary duties with respect to the Proposed Acquisition, and that Integra, Integra Derma, Inc. and Derma Sciences aided and abetted those alleged breaches of fiduciary duties. Each complaint seeks, among other things, to rescind the

Proposed Acquisition or recover money damages in the event the Proposed Acquisition is consummated. While the complaints also sought to enjoin the Proposed Acquisition, on February 9, 2017, plaintiffs agreed to not pursue preliminary injunctive relief in return for Derma Sciences making certain additional disclosures. Integra and Integra Derma, Inc. believe that the complaints are wholly without merit and intend to vigorously defend against these lawsuits.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information, Holders and Dividends

Our common stock trades on The NASDAQ Global Market under the symbol "IART." The following table lists the high and low closing sales prices for our common stock for each quarter for the last two years:

	2016		2015	
	High	Low	High	Low
Fourth Quarter (1)	$43.22	$37.89	$34.30	$28.22
Third Quarter (1)	$43.70	$39.37	$33.14	$29.18
Second Quarter (1) (2)	$39.89	$32.58	$31.57	$26.58
First Quarter (1) (2)	$33.78	$27.75	$28.33	$24.14

(1) As adjusted to give effect to the two-for-one stock split effective December 21, 2016.

(2) Due to the July 1, 2015 distribution of SeaSpine, the high and low close prices shown above for each quarter prior to the distribution have been adjusted for comparability purposes.

We have not paid any cash dividends on our common stock since our formation. Our credit facility limits the amount of dividends that we may pay. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Amended and Restated Senior Credit Agreement." Any future determinations to pay cash dividends on the common stock will be at the discretion of our Board of Directors and will depend upon our results of operations, cash flows, and financial condition and other factors deemed relevant by the Board of Directors.

The number of stockholders of record as of February 21, 2017 was approximately 1,008, which includes stockholders whose shares were held in nominee name.

Sales of Unregistered Securities

There were no sales of unregistered securities during the years ended December 31, 2016, 2015 or 2014.

Sale of Registered Securities

In August 2015, we sold 7.590 million shares of our common stock (including 990,000 shares from the exercise of the underwriters' option for additional shares), in a registered public offering to a select group of underwriters through a Registration Statement on Form S-3 (File No. 333-192079) that was declared effective by the Securities and Exchange Commission on November 4, 2013. The shares of common stock were sold at a price of $30.50 per share (before underwriting discounts and commissions). The aggregate offering gross proceeds were $231.5 million. Following the sale of the common stock, the public offering terminated.

We incurred total offering costs of approximately $11.8 million, which includes the amounts paid for underwriters' discounts and commissions of 5.0%, and other offering costs. The net proceeds of the offering were $219.7 million after deducting these expenses. No offering expenses were paid directly or indirectly to any of our directors or officers (or their associates) or persons owning ten percent or more of any class of our equity securities or to any other affiliates.

We used the entire net proceeds from this offering to pay down a portion of our outstanding Senior Credit Facility balance during 2015.

The foregoing represents our best estimate of our use of proceeds for the period indicated.

Issuer Purchases of Equity Securities

29

On October 25, 2016, the Board of Directors terminated the previous share repurchase plan dated October 28, 2014, of up to $75 .0 million of outstanding common stock set to expire at the end of 2016 and authorized a new repurchase of up to $150.0 million outstanding common stock through December 2018. Shares may be repurchased either in the open market or in privately negotiated transactions.

There have been no shares of common stock repurchased by the Company under any of these authorizations in the year ended December 31, 2016 or 2015.

See Note 7, Treasury Stock, in our consolidated financial statements for further details.

ITEM 6. SELECTED FINANCIAL DATA

The information set forth below should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this report. All results and data in the tables below reflect continuing operations, unless otherwise noted. As a result, the data presented below will not necessarily agree to previously issued financial statements. See Note 3, Discontinued Operations in the Consolidated Financial Statements in Item 15 of this Form 10-K for additional information on discontinued operations and Note 4, Acquisitions for additional information regarding the impact of 2016, 2015 and 2014 acquisitions.

	Years Ended December 31,				
	2016	2015	2014	2013	2012
	(In thousands, except per share data)				
Operating Results:					
Total revenues, net	$992,075	$882,734	$796,717	$696,832	$691,895
Costs and expenses	876,735	803,147	728,860	661,459	614,110
Operating income (4)	115,340	79,587	67,857	35,373	77,785
Interest income (expense), net (1) (2)	(25,779)	(23,504)	(21,799)	(14,792)	(13,236)
Other income (expense), net	845	4,588	(492)	(1,795)	(318)
Income from continuing operations before income taxes	90,406	60,671	45,566	18,786	64,231
Provision for (benefit from) income taxes (4)	15,842	53,820	9,271	(3,241)	16,024
Net income from continuing operations	$74,564	$6,851	$36,295	$22,027	$48,207
Loss from discontinued operations (net of tax benefit)	$—	$(10,370)	$(2,291)	$(43,094)	$(7,003)
Net income (loss)	$74,564	$(3,519)	$34,004	$(21,067)	$41,204
Diluted net income per common share from continuing operations	$0.94	$0.10	$0.55	$0.38	$0.85
Diluted net loss per common share from discontinued operations	$—	$(0.15)	$(0.03)	$(0.75)	$(0.12)
Diluted net income (loss) per common share	$0.94	$(0.05)	$0.52	$(0.37)	$0.73
Weighted average common shares outstanding for diluted net income per share	79,194	71,354	65,920	57,604	57,032

	Years Ended December 31,				
	2016	2015	2014	2013	2012
	(In thousands)				
Financial Position:					
Cash, cash equivalents (5)	$102,055	$48,132	$71,734	$120,692	$99,768
Total assets (5)	1,807,954	1,774,224	1,413,900	1,009,796	1,064,172
Short-term borrowings under the term loan of the senior credit facility (5)	—	14,375	3,750	—	—
Long-term borrowings under the revolving portion of the senior credit facility (1), (5)	665,000	481,875	413,125	186,875	321,875
Long-term debt (2), (5)	—	218,240	213,121	205,182	197,672
Retained earnings (4)	220,443	145,879	314,960	280,956	302,023
Stockholders’ equity (3)	839,667	751,443	704,322	666,090	517,775

(1) For each of the periods presented, we report the borrowings outstanding under the revolving portion of our Senior Credit Facility as long-term debt as well as the 1.625% convertible senior notes due in 2016 ("2016 Convertible Notes") based on our current intent and ability to repay the borrowings outside of the following twelve-month periods. We also report the term loan as long-term debt with the exception of current principal payments due within 12 months, which are classified as short-term. At December 31, 2016, we have a total of $665.0 million outstanding under our Senior Credit Facility and $835.0 million available for future borrowings.

(2) In 2011, we issued $230.0 million of the 2016 Convertible Notes. The 2016 Convertible Notes were repaid in December 2016 in accordance with their terms.

(3) In 2015, we sold 7.590 million shares of our common stock at a price of $30.50 per share. The aggregate offering proceeds were $231.5 million. The net proceeds of the offering were $219.7 million after deducting the underwriters' discounts and commissions and all other estimated offering expenses.

In 2013, we sold 8.050 million shares of our common stock at a price of $20.00 per share. The aggregate gross offering proceeds were $161.0 million. The net proceeds of the offering were $152.5 million after deducting the underwriters' discounts and commissions and all other estimated offering expenses.

(4) In 2016. the Company elected to adopt Accounting Standard Update 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718). 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 $3.8 million for the year ended December 31, 2016.

(5) Presented for continuing operations only.

ITEM 7. 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 together with the selected consolidated financial data and our financial statements and the related notes appearing elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. 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 under the heading “Risk Factors.”

GENERAL

Integra is a world leader in medical technology focused on limiting uncertainty for surgeons so they can concentrate on providing the best care for their patients. Integra provides customers with clinically relevant, innovative and cost-effective products that improve the quality of life for patients. We focus on cranial procedures, small bone and joint reconstruction, the repair and reconstruction of soft tissue, and instruments for use in surgery.

We manufacture and sell our products in two reportable business segments: Specialty Surgical Solutions, and Orthopedics and Tissue Technologies. Our Specialty Surgical Solutions products offer specialty surgical implants and instrumentation for a broad range of specialties. This product category includes products and solutions for dural repair, precision tools and instruments, tissue ablation, and neuro critical care including market-leading product portfolios used in neurosurgery operation suites and critical care units. Our Orthopedics and Tissue Technologies products offer a unique combination of differentiated regenerative technology products for soft tissue repair and tissue regeneration products, alongside small bone fixation and joint replacement hardware products for both upper extremities and lower extremities. This product category also includes private-label sales of a broad set of our regenerative medicine technologies.

We manufacture many of our products in plants located in the United States, Puerto Rico, France, Germany, Ireland, and Mexico. We also source most of our handheld surgical instruments, specialty metal and pyrocarbon implants, and dural sealant products through specialized third-party vendors.

In the United States, we have several sales channels. Specialty Surgical Solutions products are sold through a combination of directly employed sales representatives, distributors and wholesalers, depending on the customer call point. Orthopedics and Tissue Technologies products are sold through directly employed sales representatives and specialty distributors focused on their respective surgical specialties. We sell in the international markets through a combination of direct sales organizations and distributors.

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

Our objective is to become 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 so they can concentrate on providing the best care for their patients and by becoming a company recognized by our customers as a leader in specialty surgical applications, regenerative technologies and extremities orthopedics worldwide. Our strategy is built around three pillars - execute, optimize, and accelerate growth. These three pillars support our strategic initiatives to deliver on our commitments through improved planning and communication, optimize our infrastructure, and grow by introducing new products to the market through internal development, geographic expansion, and strategic acquisitions.

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

We believe that we are particularly effective in the following aspects of our business:

- Regenerative Technology Platform. We have developed numerous product lines through our proprietary collagen and polyethylene glycol technologies that are sold through every one of our sales channels.
- Diversification and Platform Synergies. The selling platforms of Specialty Surgical Solutions, and Orthopedics and Tissue Technologies each contribute a different strength to our core business. Specialty Surgical Solutions provides us with a strong presence in the hospital, with market-leading products and comprehensive solutions for surgical specialties, such as neurosurgery, as well as a strong capacity to generate cash flows. Orthopedics and Tissue Technologies enables us to grow our top line by continuing to introduce new, differentiated products in fast-growing markets, such as small joint replacement and advanced wound care, as well as to increase gross margins. We have unique synergies between these platforms, such as our regenerative technology, instrument sourcing capabilities, and enterprise contract management.
- Specialized Sales Footprint. Our medical technology investment and manufacturing strategy provides us with a specialized set of customer call-points and synergies. We have market-leading products across our portfolio providing both scale and depth in solutions for a broad set of clinical needs across many departments in the healthcare system. We also have clinical expertise across all of our channels in the United States, and an opportunity to expand and leverage this expertise in markets worldwide. In response to our customers' needs for clinical and technical solutions across multiple departments and clinical areas, we have developed and deployed our Enterprise Selling initiative to bring unique clinical solutions to even the most difficult healthcare issues in our key accounts across multiple clinical

sites and multi-hospital integrated delivery networks.

- Ability to Change and Adapt. Our corporate culture is what enables us to adapt and evolve. We have demonstrated that we can quickly and profitably integrate new products and businesses. This core strength has made it possible for us to grow over the years, and is key to our ability to grow into a multi-billion dollar company.

On July 1, 2015, we completed the separation of SeaSpine from Integra through the pro rata distribution of 100% of the common stock of SeaSpine to Integra's stockholders of record as of the close of business on June 19, 2015. The distribution was structured to be tax-free to Integra and its shareholders for U.S. federal income tax purposes. Unless indicated otherwise, the information in the management discussion and analysis of financial condition and results of operations relates to the Company’s continuing operations. Further information regarding the SeaSpine separation and discontinued operations reporting may be found in Note 3, Discontinued Operations.

Clinical and Product Development Activities

After finalizing our multi-center clinical trial evaluating the safety and effectiveness of the INTEGRA Dermal Regeneration Template for the Treatment of DFU in 2015, we filed this data with the FDA and received PMA approval on January 7, 2016. The Company started commercializing the resulting DFU product, Omnigraft, late in 2016. Additionally, we finalized patient follow-up in a Post Approval Study for our DuraSeal Exact Spine Sealant System, and submitted the study results on-time to the FDA in October 2016. The study showed the continued safety and effectiveness of this approved medical device, and we expect that this study will satisfy the post-approval commitment related to this product. We continue to invest in additional clinical studies to support market access and promotion of existing products, and to pursue new product indications, such as breast reconstruction. From a product development perspective, we are also investing in next generation nerve products, and longer term research programs to evaluate combination products.

ACQUISITIONS

Our strategy includes the acquisition of complementary product lines and companies in order to increase the breadth and reach of our product portfolios. As a result of our recent acquisitions of businesses, assets and product lines, our financial results for the year ended December 31, 2016 may not be directly comparable to those of the corresponding prior-year periods. See Note 4, Acquisitions and Pro Forma Results to our consolidated financial statements for a further discussion.

From January 2014 through December 2016, we acquired the following businesses, assets and product lines:

In December 2015, we acquired the assets of Tekmed Instruments S.p.A ("Tekmed") for $14.1 million in cash, after minimal amount of working capital and purchase adjustment, which was recorded as an adjustment to assumed liabilities. Tekmed was a distributor of our products in Italy and has a specialty focus 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 us to support Specialty Surgical Solutions growth in Italy along with other key Integra franchises.

In October 2015, we 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 for $6.0 million in cash. The acquired toe and ankle products ("Salto and Futura") enhances our lower extremities product offering and accelerates our entry into the U.S. total ankle replacement market. Under the agreement, Integra acquired the U.S. rights to the Salto Talaris Total Ankle Prosthesis, Salto Talaris XT Revision Total Ankle Prosthesis, Futura Primus Flexible Great Toe system, Futura Classic Flexible Great Toe system, and Futura Lesser Metatarsal Phalangeal system. The agreement also includes an option to purchase, in the future, the rights to the Salto Talaris, Salto Talaris XT, Salto Mobile, and Futura silastic toe replacement products outside the United States.

In July 2015, we executed the two merger agreements (collectively, the "Agreements") under which we acquired TEI Biosciences, Inc., a Delaware corporation ("TEI Bio"), and TEI Medical Inc., a Delaware corporation ("TEI Med") for an aggregate purchase price of approximately $312.2 million ($210.9 million for TEI Bio and $101.3 million for TEI Med) including a working capital 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.

In December 2014, we acquired certain assets of Koby Ventures II, L.P. dba Metasurg ("Metasurg") for an aggregate purchase price of $27.2 million. The purchase price consisted of an initial cash payment to Metasurg of $26.5 million

and contingent consideration with an acquisition date fair value of $0.7 million. The potential maximum undiscounted contingent consideration of $38.5 million is based on reaching certain sales of acquired products. Metasurg develops intuitive implant systems for the foot and ankle market and sells almost entirely in the U.S. market. During the fourth quarter of 2015, we adjusted the fair value of the contingent consideration to zero as we no longer believe the achievement of the sales targets is probable. The contingency period lapsed in 2016 and no payments were made.

In October 2014, we acquired all outstanding shares of Medtronic Xomed Instrumentation, SAS ("MicroFrance") from Medtronic, Inc. ("Medtronic") as well as certain assets of Medtronic for $61.6 million in cash. MicroFrance specializes in manual ear, nose,

and throat instruments and designs, manufactures, and sells reusable handheld instruments to ENT and laparoscopic surgical specialists around the world.

In January 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 consists 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. Confluent Surgical is a developer and supplier of polymer-based biosurgery technology used in surgical sealants and anti-adhesion products.

FACILITY OPTIMIZATION ACTIVITIES

As a result of our ongoing acquisition strategy and significant growth in recent years, we have undertaken cost-saving initiatives to consolidate manufacturing operations, distribution facilities and transfer activities, implement a common ERP system, eliminate duplicative positions, realign various sales and marketing activities, and expand and upgrade production capacity for our regenerative technology products. Over the past five years, we have reduced the number of manufacturing and distribution facilities that we operate by ten and have largely completed plans to consolidate operational activities into existing sites with greater utilization and efficiency as a result. We expect the benefits of these efforts will contribute to our financial results in 2017 and beyond.

While we expect a positive impact from ongoing restructuring, integration, and manufacturing transfer and expansion activities, such results remain uncertain.

RESULTS OF OPERATIONS

Executive Summary

Our net income from continuing operations in 2016 was $74.6 million, or $0.94 per diluted share, as compared to $6.9 million, or $0.10 per diluted share in 2015 and $36.3 million, or $0.55 per diluted share in 2014.

Revenues from 2014 to 2016 increased $195.4 million, generating $149.2 million of additional gross margin over that time period resulting primarily from the businesses that we acquired and strong organic growth. Costs and expenses increased sequentially as new employees, especially in selling general and administrative functions, joined the Company, and from the higher operating expenses associated with the businesses we acquired.

Changes in income before taxes resulted from the operating items described above and changes in interest expense, which increased in 2015 and 2016 resulting from higher borrowings under our Senior Credit Facility. Additionally, we saw Other income decrease in 2016, primarily as a result of lower income associated with the transition services agreement entered into with SeaSpine in conjunction with the July 2015 spin-off.

Income tax expense decreased in 2016 primarily driven by a $37.2 million of expense recorded in 2015 relating to a non-cash tax valuation allowance from the spin-off of the spine business.

Special Charges

Income before taxes includes the following special charges:

	Years Ended December 31,		
	2016	2015	2014
	(In thousands)		
Global ERP implementation charges	$15,585	$16,375	$23,063
Structural optimization charges	7,794	16,752	13,716
Certain employee termination charges	1,446	2,642	9,094
Discontinued product lines charges	—	—	692
Acquisition-related charges	18,898	15,703	9,182
Spine spin-off charges	—	3,801	—
Manufacturing facility remediation costs	—	—	1,416
Impairment charges	—	—	790
Convertible debt non-cash interest (1)	8,075	7,871	7,140
Total	$51,798	$63,144	$65,093

(1) The amounts have been reduced by $0.3 million, $0.6 million, and $0.8 million in 2016, 2015, and 2014, respectively, representing the non-cash interest that was capitalized as a component of the historical cost of assets constructed for the Company's own use. See Note 2, Summary of Significant Accounting Policies of our consolidated financial statements for more information.

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

	Years Ended December 31,		
	2016	2015	2014
	(In thousands)		
Cost of goods sold	$18,869	$17,421	$17,094
Research and development	200	580	500
Selling, general and administrative	24,654	38,761	40,359
Interest expense	8,075	7,871	7,140
Other income	—	(1,489)	—
Total	$51,798	$63,144	$65,093

We typically define special charges as items for which the amounts and/or timing of such expenses may vary significantly from period to period, depending upon our acquisition, integration and restructuring activities, and for which the amounts are non-cash in nature, or for which the amounts are not expected to recur at the same magnitude. We believe that given our ongoing strategy of seeking acquisitions, our continuing focus on rationalizing our existing manufacturing and distribution infrastructure and our continuing review of various product lines in relation to our current business strategy, some of the special charges discussed above could recur with similar materiality in the future. In 2010, we began investing significant resources in the global implementation of a single enterprise resource planning system. We began capitalizing certain costs for the project starting in 2011 and continued to do so during 2016. We expect the additional capital and integration expenses associated with our ERP system to decrease in 2017 as the project is substantially complete.

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

35

Revenues and Gross Margin

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

	Years Ended December 31,		
	2016	2015	2014
Segment Net Sales	(In thousands)		
Specialty Surgical Solutions	$632,524	$586,918	$554,872
Orthopedics and Tissue Technologies	359,551	295,816	241,845
Total revenues	992,075	882,734	

	Revenues	Operating Earnings	Depletion and Amortization	Equipment Additions
Period Ended June 30, 2016				
Marketing	$ 514,923	$ 11,883	$ 5,203	$514
Transportation	27,207	874	3,835	4,151
Oil and gas	1,564	(679)	833	147
	$ 543,694	$ 12,078	$ 9,871	$4,812
Period Ended June 30, 2015				
Marketing	$ 1,118,985	$ 18,690	$ 5,554	$2,128
Transportation	34,173	2,294	3,799	534
Oil and gas	2,973	(3,497)	2,765	2,171
	$ 1,156,131	$ 17,487	$ 12,118	$4,833

- Three Month Comparison

	Revenues	Segment Operating Earnings	Depreciation Depletion and Amortization	Property and Equipment Additions
Period Ended June 30, 2016				
Marketing	$278,529	$7,235	$ 2,514	$251
Transportation	13,860	701	1,850	334
Oil and gas	774	(397)	392	17
	$293,163	$7,539	$ 4,756	$602
Period Ended June 30, 2015				
Marketing	$581,237	$9,842	$ 2,787	$278
Transportation	17,708	1,169	1,900	368
Oil and gas	1,613	(1,772)	1,343	522
	$600,558	$9,239	$ 6,030	$1,168

Segment operating earnings reflect revenues net of operating costs and depreciation, depletion and amortization and are reconciled to earnings from continuing operations before income taxes, as follows (in thousands):

	Six Months Ended June 30,		Three Months Ended June 30,	
	2016	2015	2016	2015
Segment operating earnings	$12,078	$17,487	$7,539	$9,239
- General and administrative	(4,138)	(5,649)	(1,938)	(2,318)
Operating earnings	7,940	11,838	5,601	6,921
- Interest income	199	173	96	95
- Interest expense	-	(4)	-	-
Earnings before income tax	$8,139	$12,007	$5,697	$7,016

Identifiable assets by industry segment are as follows (in thousands):

	June 30, 2016	December 31, 2015
Marketing	$105,483	$96,723
Transportation	34,731	35,010
Oil and gas	7,666	8,930
Other	103,646	102,552
	$251,526	$243,215

Intersegment sales are insignificant and all sales occurred in the United States. Other identifiable assets are primarily corporate cash, corporate accounts receivable, investments and properties not identified with any specific segment of the Company's business. Accounting policies for transactions between reportable segments are consistent with applicable accounting policies as disclosed herein.

Note 4 - Transactions with Affiliates

The late Mr. K. S. Adams, Jr., former Chairman of the Board of the Company, and certain of his family partnerships and affiliates have participated as working interest owners with the Company's subsidiary, Adams Resources Exploration Corporation (AREC") Mr. Adams and the affiliates participated on terms similar to those afforded other non-affiliated working interest owners. While the affiliates have generally maintained their existing property interest, they have not participated in any such transactions originating after the death of Mr. Adams in October 2013. In connection with the operation of certain oil and gas properties, the Company also charges such related parties for administrative overhead primarily as prescribed by the Council of Petroleum Accountants Society Bulletin 5. The Company also enters into certain transactions in the normal course of business with other affiliated entities including direct cost reimbursement for shared phone and administrative services. In addition, the Company leases office space from an affiliated entity based on a lease rental rate determined by an independent appraisal.

The Company utilizes its affiliate, Bencap, to administer certain of its employee medical benefit programs including a detail audit of individual medical claims. See Note (1) to the accompanying financials under the caption "Investments" for further discussion. Bencap earns a fee from the Company for providing such services at a discounted amount from its standard charge to non-affiliates.

16

Activities with affiliates were as follows (in thousands):

	Six Months Ended June 30,		Three Months Ended June 30,	
	2016	2015	2016	2015
Overhead recoveries	$28	$50	$7	$24
Affiliate billings to company	$38	$46	$27	$29
Company billings to affiliates	$2	$22	$1	$10
Rentals paid to affiliate	$318	$286	$155	$143
Fees paid to Bencap	$130	$-	$94	$-

Note 5 - Commitments and Contingencies

Under the Company's automobile and workers' compensation insurance policies, the Company can either receive a return of premium paid or be assessed for additional premiums up to pre-established limits. Additionally, in certain instances the risk of insured losses is shared with a group of similarly situated entities. The Company has appropriately recognized estimated expenses liabilities related to these policies for losses incurred but not reported to the Company or its insurance carrier as follows (in thousands):

	June 30, 2016	December 31, 2015
Estimated expenses and liabilities	$2,452	$2,086

The Company maintains a self-insurance program for managing employee medical claims. A liability for expected claims incurred is established on a monthly basis. As claims are paid, the liability is relieved. The Company maintains third party insurance stop-loss coverage for annual individual medical claims exceeding $100,000. In addition, the Company maintains $2 million of umbrella insurance coverage for aggregate medical claims exceeding approximately $4.5 million for each of the calendar years ended 2016 and 2015. Medical accrued amounts are as follows (in thousands):

	June 30, 2016	December 31, 2015
Accrued medical claims	$2,141	$1,107

AREC is named as a defendant in a number of Louisiana based suits involving alleged environmental contamination from prior drilling operations. Such suits typically allege improper disposal of oilfield wastes in earthen pits with one suit alleging subsidence contributing to the formation of a sink hole. AREC is currently included in three such suits. The suits are styled LePetit Chateau Deluxe v. Adams Resources Exploration Corporation dated March 2004, Gustave J. LaBarre, Jr., et. al. v. Adams Resources Exploration Corporation et. al. dated October 2012 and Henning Management, LLC v. Adams Resources Exploration Corporation dated November 2013. Each suit involves multiple industry defendants with substantially larger proportional interests in the properties except, all the larger defendants have settled their claims in the LePetit Chateau Deluxe matter. The plaintiffs in each of these matters are seeking unspecified compensatory and punitive damages. While management does not believe that a material adverse effect

will result from the claims, significant attorney fees will be incurred to defend these matters. As of June 30, 2016 and December 31, 2015, the Company has accrued $500,000 of future legal/or settlement costs for these matters.

From time to time as incidental to its operations, the Company may become involved in various lawsuits and/or disputes. Primarily as an operator of an extensive trucking fleet, the Company is a party to motor vehicle accidents, worker compensation claims and other items of general liability as would be typical for the industry. Management of the Company is presently unaware of any claims against the Company that are either outside the scope of insurance coverage or that may exceed the level of insurance coverage and could potentially represent a material adverse effect on the Company's financial position or results of operations.

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

Results of Operations

- Marketing

Marketing segment revenues, operating earnings, depreciation and certain costs were as follows (in thousands):

	Six Months Ended June 30,			Three Months Ended June 30,		
	2016	2015	Change(1)	2016	2015	Change(1)
Revenues	$514,923	$1,118,985	(54.0)%	$278,529	$581,237	(52.1)%
Operating earnings	$11,883	$18,690	(36.4)%	$7,235	$9,842	(26.5)%
Depreciation	$5,203	$5,554	(6.3)%	$2,514	$2,787	(9.8)%
Driver commission	$8,341	$11,777	(29.2)%	$3,833	$5,828	(34.2)%
Insurance	$4,117	$4,571	(9.9)%	$1,947	$2,331	(16.5)%
Fuel	$2,978	$5,499	(45.8)%	$1,305	$2,698	(51.6)%

(1) Represents the percentage increase (decrease) from the prior year.

Crude oil revenues declined in 2016 as a result of reduced purchase and sale volumes and reduced market prices for crude oil. The volume decline stemmed primarily from reduced production and reduced purchase activity in the Eagle Ford shale trend of South Texas. Operating earnings were adversely affected by the volume declines as well as a narrowing of margins in 2016. Driver commissions are reduced both in terms of the number of drivers employed as well as pay scale due to the decline in activity. Fuel and insurance costs are lower, consistent with reduced volumes.

Supplemental volume and price information is as follows:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2016	2015	2016	2015
Field Level Purchase Volumes – Per Day				
Crude oil – barrels	82,093	118,239	75,986	112,179
Average Purchase Price				
Crude oil – per barrel	$35.34	$48.88	$42.45	$54.77

(1) Reflects the volume purchased from third parties at the oil and natural gas field level and pipeline pooling points.

Crude Oil – Field Level Operating Earnings (Non GAAP-Measure)(1)

Two significant factors affecting comparative crude oil segment operating earnings are inventory valuations and forward commodity contract (derivatives or mark-to-market) valuations. As a purchaser and shipper of crude oil, the Company holds inventory in storage tanks and third-party pipelines. Inventory sales turnover occurs approximately every three days, but the quantity held in stock at the end of a given period is reasonably consistent. As a result, during periods of increasing crude oil prices, the Company recognizes inventory liquidation gains while during periods of falling prices, the Company recognizes inventory valuation losses. Over time, these gains and losses tend to offset and have limited impact on cash flow. While crude oil prices fluctuated during the first six months of 2016 and 2015, the net impact on earnings was to yield inventory liquidation gains as shown in the table below.

Crude oil marketing operating earnings are also affected by the valuations of the Company's forward month commodity contracts (derivative instruments) as of the various report dates. Such non-cash valuations are calculated and recorded at each period end based on the underlying data existing as of such date. The Company generally enters into these derivative contracts as part of a pricing strategy based on crude oil purchases at the wellhead (field level). Only those contracts qualifying as derivative instruments are accorded fair value treatment while the companion contracts to purchase crude oil at the wellhead (field level) are not accorded fair value treatment. The period-end valuation of derivative instruments requires recognition of mark-to-market" gains and losses.

The impact on crude oil segment operating earnings of inventory liquidations and derivative valuations is summarized as follows in reconciling from the GAAP to non-GAAP financial measures (in thousands):

	Six Months Ended June 30,		Three Months Ended June 30,	
	2016	2015	2016	2015
As reported segment operating earnings	$11,883	$18,690	$7,235	$9,842
Add (less) -				
Inventory valuation (gains) losses	(6,211)	(1,505)	(4,008)	(1,401)
Derivative valuation (gains) losses	(124)	(50)	(282)	(89)
Field level operating earnings(1)	$5,548	$17,135	$2,945	$8,352

(1) Such designation is (a) unique to the Company, (b) not a substitute for GAAP and (c) not comparable to any similar measures developed by industry participants. The Company utilizes such data to evaluate the profitability of its operations.

The Company held crude oil inventory at a weighted average commodity price in barrels as follows:

	June 30, 2016		December 31, 2015	
	Barrels	Average Price	Barrels	Average Price
Crude oil inventory	280,794	$45.80	261,718	$29.31

Field level operating earnings and field level purchase volumes (see earlier table) depict the Company's day-to-day operation of acquiring crude oil at the wellhead, transporting the material, and delivery to market at the sales point. Comparative field level operating earnings decreased during 2016 relative to the comparative 2015 periods due to reduced purchase volumes and reduced unit margins. Competition has intensified for a declining level of crude oil

production within the Company's areas of operation.

Historically, prices received for crude oil have been volatile and unpredictable with price volatility expected to continue. See Part I, Item 1A, Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

- Transportation

Transportation segment revenues, earnings and depreciation are as follows (in thousands):

	Six Months Ended June 30,			Three Months Ended June 30,		
	2016	2015	Change(1)	2016	2015	Change(1)
Revenues	$27,207	$34,173	(20.4)%	$13,860	$17,708	(21.7)%
Operating earnings	$874	$2,294	(61.9)%	$701	$1,169	(40.0)%
Depreciation	$3,835	$3,799	.9 %	$1,850	$1,900	(2.6)%
Driver commission	$5,805	$7,003	(17.1)%	$2,925	$3,632	(19.5)%
Insurance	$2,595	$2,987	(13.1)%	$1,115	$1,514	(26.4)%
Fuel	$2,759	$4,694	(41.2)%	$1,447	$2,460	(41.2)%
Maintenance expense	$2,641	$3,075	(14.1)%	$1,313	$1,553	(15.5)%
Mileage	11,485	13,407	(14.3)%	5,817	6,292	(7.5)%

(1) Represents the percentage increase (decrease) from the prior year.

The Company's revenue rate structure includes a component for fuel costs such that fuel cost fluctuations are largely passed through to the customer over time. To illustrate, a calculation of revenues net of fuel cost is presented below (in thousands):

	Six Months Ended June 30,		Three Months Ended June 30,	
	2016	2015	2016	2015
Total transportation revenue	$27,207	$34,173	$13,860	$17,708
Diesel fuel costs	$(2,759)	$(4,694)	$(1,447)	$(2,460)
Revenues net of fuel(1)	$24,448	$29,479	$12,413	$15,248

(1) Such designation is (a) unique to the Company, (b) not a substitute for GAAP and (c) not comparable to any similar measure developed by industry participants. The calculation is being shown to facilitate the readers comparison only.

Revenues net of fuel are reduced in 2016 because of reduced demand which is indicative from the change in miles driven shown above. In addition, shippers have demanded reduced rates since the present level of demand created industry wide excess capacity. The Company has responded by selling older and excess equipment, reducing the level

of personnel and working to control maintenance costs. Operating earnings declined at a rate faster than the decline in revenues due to the fixed cost component contained therein. It is believed that a change in the current market demand scenario will not occur absent continued improvement in the overall U. S. economy.

- Oil and Gas

Oil and gas segment revenues and operating earnings are primarily a function of crude oil and natural gas prices and volumes. Comparative amounts for revenues, operating earnings and depreciation and depletion are as follows (in thousands):

	Six Months Ended June 30,			Three Months Ended June 30,		
	2016	2015	Change(1)	2016	2015	Change(1)
Revenues	$1,564	$2,973	(47.4)%	$774	$1,613	(52.0)%
Operating earnings (loss)	$(679)	$(3,497)	(80.6)%	$(397)	$(1,772)	(77.6)%
Depreciation/depletion	$833	$2,765	(69.9)%	$392	$1,343	(70.8)%

(1) Represents the percentage increase (decrease) from the prior year.

Oil and gas revenues and operating earnings declined in 2016 following reduced commodity prices and volume reductions as shown in the table below. Volumes declined consistent with reduced drilling activity and normal production declines. Depreciation and depletion expense is also reduced in 2016 consistent with reduced volumes and reduced net capitalized costs.

Production volumes and price information is as follows:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2016	2015	2016	2015
Crude oil				
Volume – barrels	18,253	27,640	8,182	13,636
Average price per barrel	$34.89	$50.84	$41.92	$57.94
Natural gas				
Volume – mcf	360,779	433,206	163,346	215,945
Average price per mcf	$1.88	$2.94	$1.80	$3.00
Natural gas liquids				
Volume – barrels	20,989	21,341	9,513	11,090
Average price per barrel	$11.82	$13.76	$14.40	$15.78

General and administrative

General and administrative expenses declined from $5,649,000 during the first half of 2015 to $4,138,000 during the first half of 2016 due to a reduced employee termination costs.

- Investments

In January 2016, the Company acquired a 30% member interest in Bencap LLC (Bencap) for a $2,200,000 cash payment. Bencap provides medical insurance brokerage and medical claims auditing services to employers utilizing

ERISA governed employee benefit plans. The Company accounts for this investment under the equity method of accounting. Bencap used the Company's funding to expand its back-office and sales support functions as it seeks to compete in the medical benefits marketplace. Under equity method accounting the Company has included in operating earnings its pro-rata share of Bencap's net expenses in excess of revenues.

In April 2016 the Company acquired a 15% equity interest in VestaCare, Inc., a provider of electronic payment technologies to medical care providers. VestaCare is accounted for under the “cost method” and as such, earnings will be reported as dividends are paid.

Outlook

The trend continues to indicate reduced crude oil commodity prices and slackened demand for trucking services. As a result, the present emphasis involves aggressive sales efforts and cost control pending a rebound in the market conditions for the Company’s products and services. By preserving liquidity and operating as a low-cost provider, the Company will be well positioned when general economic conditions improve.

Liquidity and Capital Resources

The Company’s liquidity derives from net cash provided by operating activities and is therefore dependent on the success of future operations. The most significant source of liquidity is the cash yield from net earnings factoring in the non-cash book expense items for depreciation, depletion, amortization and impairments. The Company has no debt and funds all of its projects from this stream of cash. In most periods, cash inflows equal or exceed capital spending outflows. Should cash inflow subside or turn negative, the Company will curtail its capital spending accordingly.

As of June 30, 2016 and December 31, 2015, the Company had no bank debt or other forms of debenture obligations. Cash balances are maintained in order to meet the timing of day-to-day cash needs and such amounts and working capital, the excess of current assets over current liabilities, were as follows (in thousands):

	June 30, 2016	December 31, 2015
Cash	$90,771	$91,877
Working capital	$102,379	$96,340

Cash provided by (used in) operating, investing and financing activities were as follows (in thousands):

	Six Months Ended June 30,	
	2016	2015
Net cash provided by operating activities	$6,152	$10,026
Net cash (used in) investing activities	$(5,402)	$(4,374)
Net cash (used in) financing activities	$(1,856)	$(1,856)

The Company relies heavily on its ability to obtain open-line trade credit from its suppliers especially with respect to its crude oil marketing operation. Because of this, the Company strives to maintain substantial cash balances and avoid debt obligations.

22

At various times each month, the Company makes cash prepayments and/or early payments in advance of the normal due date to certain suppliers of crude oil within the marketing operations. Crude oil supply prepayments are recouped and advanced from month to month as the suppliers deliver product to the Company. In addition, in order to secure crude oil supply, the Company may also early pay" its suppliers in advance of the normal payment due date of the twentieth of the month following the month of production. Such early payments" reduce cash and accounts payable as of the balance sheet date. The Company also requires certain customers to make similar early payments or to post cash collateral with the Company in order to support their purchases from the Company. Early payments and cash collateral received from customers increases cash and reduces accounts receivable as of the balance sheet date.

The Company maintains a stand-by letter of credit facility with Wells Fargo Bank to provide for the issuance of up to $60 million in stand-by letters of credit for the benefit of suppliers of crude oil. Stand-by letters of credit are issued as needed and are cancelled as the underlying purchase obligations are satisfied by cash payment when due. The issuance of stand-by letters of credit enables the Company to avoid posting cash collateral when procuring crude oil supply.

Early payments, collateral and letters of credit amounts were as follows (in thousands):

	June 30, 2016	December 31, 2015
Early payments received	$13,658	$16,770
Cash collateral received	$-	$840
Prepayments to suppliers	$-	$167
Early payments to suppliers	$7,899	$11,645
Letters of credit outstanding	$1,000	$1,000

Management believes current cash balances, together with expected cash generated from future operations, and the ease of financing truck and trailer additions through leasing arrangements (should the need arise) will be sufficient to meet short-term and long-term liquidity needs.

The Company utilizes cash from operations to make discretionary investments in its marketing, transportation and exploration businesses, and more recently in the area of employer oriented medical management services. The Company does not look to proceeds from property sales to fund its cash flow needs. Except for commitments totaling approximately $12.4 million associated with barge affreightment contracts, storage tank terminal arrangements and office lease space, the Company's future commitments and planned investments can be readily curtailed if operating cash flows contract.

Capital project and investment spending through the first six months of 2016 and additional anticipated 2016 capital spending is as follows (in thousands):

	Expended through June 30, 2016	Additional 2016 Spending
Crude oil marketing	$514	$500
Truck transportation	4,151	3,000
Oil and gas exploration	147	-
Investments	4,700	500

	$9,512	$4,000

For the remainder of 2016, the primary planned capital addition is completion of the on-going Houston truck terminal expansion and improvements.

A quarterly dividend of $0.22 per common share or $928,000 was paid during each of the first and second quarters of 2016 and 2015. The most significant item affecting future increases or decreases in liquidity is earnings from operations and such earnings are dependent on the success of future operations. See Part I, Item 1A Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Critical Accounting Policies and Use of Estimates

There have been no material changes to the Company's Critical Accounting Policies and Use of Estimates" disclosures that have occurred since the disclosures provided in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes to the Company's Quantitative and Qualitative Disclosures about Market Risk" that have occurred since the disclosures provided in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Forward-Looking Statements – Safe Harbor Provisions

This quarterly report for the period ended June 30, 2016 contains certain forward-looking statements covered by the safe harbors provided under federal securities law and regulations. To the extent such statements are not recitations of historical fact, forward-looking statements involve risks and uncertainties. In particular, statements included herein and/or in the Company's latest annual report on Form 10-K under the captions (a) Production and Reserve Information, (b) Regulatory Status and Potential Environmental Liability, (c) Management's Discussion and Analysis of Financial Condition and Results of Operations, (d) Critical Accounting Policies and Use of Estimates, (e) Quantitative and Qualitative Disclosures about Market Risk, (f) Income Taxes, (g) Concentration of Credit Risk, (h) Fair Value Contract Activities, and (i) Commitments and Contingencies, among others, contain forward-looking statements. Where the Company expresses an expectation or belief regarding future results of events, such expression is made in good faith and believed to have a reasonable basis in fact. However, there can be no assurance that such expectation or belief will actually result or be achieved.

With the uncertainties of forward-looking statements in mind, the reader should consider the risks discussed elsewhere in this report and other documents filed with the Securities and Exchange Commission from time to time and the important factors described in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, under Item 1A Risk Factors" that could cause actual results to differ materially from those expressed in any forward-looking statement made by or on behalf of the Company.

Item 4. Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures" (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act")), that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely discussions regarding required disclosure. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's disclosure control objectives.

24

As of the end of the period covered by this quarterly report, an evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded the Company's disclosure controls and procedures were effective at a reasonable assurance level as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting during the fiscal quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

AREC is named as a defendant in a number of Louisiana based suits involving alleged environmental contamination from prior drilling operations. Such suits typically allege improper disposal of oilfield wastes in earthen pits with one suit alleging subsidence contributing to the formation of a sink hole. AREC is currently included in three such suits. The suits are styled LePetit Chateau Deluxe v. Adams Resources Exploration Corporation dated March 2004, Gustave J. LaBarre, Jr., et. al. v. Adams Resources Exploration Corporation et. al. dated October 2012 and Henning Management, LLC v. Adams Resources Exploration Corporation dated November 2013. Each suit involves multiple industry defendants with substantially larger proportional interests in the properties, except all the larger defendants have settled their claims in the LePetit Chateau Deluxe matter. The plaintiffs in each of these matters are seeking unspecified compensatory and punitive damages. While management does not believe that a material adverse effect will result from the claims, significant attorney fees will be incurred to defend these matters. As of June 30, 2016, the Company has accrued $500,000 of future legal/or settlement costs for these matters.

From time to time as incident to its operations, the Company becomes involved in various lawsuits and/or disputes. Primarily as an operator of an extensive trucking fleet, the Company may be a party to motor vehicle accidents, worker compensation claims or other items of general liability as would be typical for the industry. Management of the Company is presently unaware of any claims against the Company that are either outside the scope of insurance coverage or that may exceed the level of insurance coverage and could potentially represent a material adverse effect on the Company's financial position or results of operations.

Item 1A. Risk Factors – There are no material changes in the Company's risk factors from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds – None

Item 3. Defaults Upon Senior Securities – None

Item 4. Mine Safety Disclosures – Not Applicable

Item 5. Other Information – None

Item 6. Exhibits

The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this Quarterly Report on Form 10-Q.

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.

ADAMS RESOURCES & ENERGY, INC
(Registrant)

Date: August 9, 2016

By /s/Thomas S. Smith
Thomas S. Smith
President, Chief Executive Officer
(Principal Executive Officer)

By /s/Richard B. Abshire
Richard B. Abshire
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description
*31.1	Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	Certificate of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32.2	Certificate of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
* **101.INS-	XBRL Instance Document
* **101.SCH -	XBRL Schema Document
* **101.CAL -	XBRL Calculation Linkbase Document
* **101.DEF	XBRL Definition Linkbase Document
* **101.LAB -	XBLR Label Linkbase Document
* **101.PRE -	XBRL Presentation Linkbase Document

* Exhibits filed herewith

** Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Income – Six Months Ended June 30, 2016 and 2015, (ii) the Consolidated Balance Sheets – June 30, 2016 and December 31, 2015, (iii) the Consolidated Statements of Cash Flows – Six Months Ended June 30, 2016 and 2015 and (iv) Notes to Consolidated Financial Statements.